



Founded 1903

Addresses
2009–2010



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2009–2010
106th Yearbook



*Her Majesty Queen Elizabeth II
Queen of Canada*

*wearing Her Canadian insignia
as Sovereign of the Order of Canada
and the Order of Military Merit*



Founded 1903

Addresses
2009–2010

GOD SAVE THE QUEEN

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Alfred Apps
President, 2009–2010

THE EMPIRE CLUB OF CANADA

PRESIDENT'S FOREWORD

This year's collection of Empire Club speeches, like those in more than 100 volumes which precede it, will give the reader an insight into the issues and concerns of contemporary Canadian society.

Invariably interesting when delivered, the presentations to the Club this year will provide future generations with a useful reference point for the diverse opinions, emerging trends and significant developments of our time. Just as we are often surprised by the debates that shaped Canadian society at the turn of the last century, there can be little doubt that our current preoccupations will provide much fodder for tomorrow's historians. By memorializing the Club's program each year in this way, we contribute a worthy legacy for those who follow us in stewarding the Club's traditions.

Members of the Empire Club have always celebrated the value of live discourse. Today we also recognize the paradox that the public service we offer grows ever more important as electronic media increasingly come to dominate our culture. In an age when everyone seems to be bombarded with unprecedented data and information from the cybersphere, we continue to offer a forum that enables Canadians to assess the character, credibility and values of our leaders in a live, dynamic and highly interactive setting.

The Empire Club is proud of its traditions, yet unafraid to innovate. This year, we expanded our use of live question-and-answer formats to more directly engage our audience. These sessions added a welcome atmosphere of genuineness and spontaneity to our meetings, enabling the Club to reach out to a new generation of participants who expect so much more than a lunch and a lecture.

I am confident that the Empire Club of Canada will continue to meet the expectations of its founders by presenting quality speakers on relevant topics with challenging and even sometimes controversial messages for sophisticated and engaged audiences. Of all the Club's great traditions worthy of preservation, this core mission remains its most glorious.

**Alfred Apps,
President, 2009–2010**

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September 10, 2009

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

Preston Manning

President and CEO, Manning Centre for Building
Democracy

ECONOMY AND ENVIRONMENTAL SUSTAINABILITY: PARTNERS OR ADVERSARIES?

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Robin Sears, Principal, Navigator Ltd., and Director, The Empire Club of Canada; Daniela Corsetti, Grade 12 Student Council President, Loretto Abbey; Farzana Hassan, Past President, Muslim Canadian Congress; Rob Hitchcock, Vice-President, Sales, Western Ontario, Walton Capital Management Group; Bruce Lourie, President, Environmental Defence Fund; Paul Brown, 2006 Ontario Campaign Co-Chair; Matthew Morton, Vice-President, Sales, Walton Capital Management Group; and Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada.

Introduction by Alfred Apps

Introduction

Thank you for the invitation and opportunity to speak. During my political days, I very much appreciated the forum that the Empire Club offered for the presentation of ideas and positions, and I want to thank you again for providing that forum and continuing to do so.

A few years ago I wrote a book entitled "Think Big." I was going to expound on that theme today until I saw that Michael Ignatieff has expropriated that theme for his latest television commercials. So now if I urge you to Think Big, my conservative friends will think that I've gone over to the dark side. And so to be safe—and we Canadians do like to be safe—I will simply urge you to Think, and leave it at that.

Why Talk about Economy and Ecology?

These days, of course, the big subject on everyone's mind is the economy—in particular the recession and the prospects for recovery. That is the major theme of luncheon, dinner, and conference speeches all over the country, and understandably so.

But today I want to talk to you about sustainability—in particular, environmental sustainability—and its relationship to the economy. Why?

Because for the first time, according to the pollsters, public concerns about and interest in the environment have not declined as the economy has worsened. In the past, when the economy got into trouble, public interest in the environment dropped off markedly, but not this time.

And secondly, because environmental sustainability is a major and growing concern of the younger generation, of our children and grandchildren. And if our generation doesn't address these questions more earnestly and substantially, we run the very real risk of alienating the next

generation from both the political arena and the world of commerce.

And so, our subject, “Economy and Sustainability: Partners or Adversaries?”

The Need to Alter our Conceptual Framework of the Economy

The traditional conception of “the economy,” which many of us still hold, involves the systematic extraction of resources, refining, manufacturing, distribution, and consumption.

In the Canadian economy, the organization of these functions is generally driven by market forces operating within a legal and policy framework created by governments.

Because we value these functions and see them as the heart of our economy, we measure and monitor them. The National Economic Accounts were developed to define, measure, and track, in dollar terms, all the economic inputs and outputs of every economic enterprise and activity in the country engaged in these functions. And the sum total of all these economic outputs (again stated in dollars) is the Gross National Product, the increase of which is the primary measure of our progress towards the goal of economic prosperity.

But now in more recent years, we have been challenged to recognize that there is another dimension to all this economic activity—a dimension, which our traditional models of the economy and calculations of GDP do not adequately take into account.

We have been challenged to recognize that for every major economic function—extraction of resources, production, distribution, and consumption of goods and services—there is another stream of physical, chemical, and biological outputs and impacts—waste, pollutants, environmental stresses that heretofore have not been rec-

ognized as an inevitable consequence of our economic activity.

As yet we have no National Ecological Accounts to enable us to fully and accurately measure these outputs and environmental impacts. But if we did, the sum total of these outputs and impacts in physical terms would eventually add up to the Gross National Waste, the reduction of which would be a measure of our progress toward achieving the goal of environmental sustainability.

In my judgment, the need to broaden our traditional conception of the economy to incorporate this environmental reality is a necessary condition to keeping our economy and ecology in sustainable balance—to achieve a complementary partnership relationship between economy and ecology rather than an adversarial one.

Is it possible for Canadians to change their conceptualization of something as big and basic as the economy?

Of course it is because we have done so—you have done so—in the past.

When this club was formed in 1903, its members conceived of Canada as part of the British Empire—an enterprise with deep historical roots and vast dimensions for which 100,000 Canadians were prepared to die in the First World War. But today our conception of Canada—your conception—is completely different.

We have had to alter and broaden our conception of our country to accommodate political and economic factors only dimly perceived at the beginning of the last century, just as today we are challenged to alter and broaden our conception of our economy to accommodate physical, biological, and ecological factors which only recently have come into sharper focus.

Achieving Economic and Environmental Sustainability

Suppose for a moment then that we accept as legitimate and worthwhile the goal of simultaneously

achieving economic and environmental sustainability, precisely how is the environmental sustainability aspect to be achieved?

Or if you will permit a Western analogy, what horses must be harnessed to the environmental sustainability wagon to move it forward?

If time permitted, we could talk extensively about better harnessing science and technology to the achievement of environmental sustainability. And we could talk about harnessing grassroots political energy to create the demand for complementary public and private policies. But the two major instruments for achieving environmental sustainability that I would like to dwell on for a moment are government regulation and markets.

Government Regulation

Imagine for a moment a psychiatrist's couch here on the head table. Imagine further that we have persuaded a politician—any politician, it matters not what party—to lie down on the couch and to play the word-association game. We will say a word, and the politician will respond by saying the first thing that comes into his or her head.

We then say the words “environment” or “pollution” or “climate change,” and what is the most likely word to come into that politician's mind? It will be “regulation.” It is the automatic response of a lawmaker to any societal problem attributable in whole or in part to the actions of individuals, companies, and the private sector. If in doubt, regulate. If in doubt, legislate. At least you will appear to be doing something, and it is something that you as a legislator are in a position to do.

To date this has been the primary instrument that we have relied upon to come to grips with environmental degradation. From international treaties like the Kyoto Accord to the acts of the legislatures and parliaments establishing environment departments and agencies to the hundreds of specific regulations promulgated under

those acts, regulation has been our primary response to the demand for environmental sustainability.

And of course there is a place for enlightened regulation, especially macro-regulation that creates the framework within which sustainable economic and environmental conservation activity can occur. But regulation also has its limits. You can bring the economic horse to water but you can't always force him to drink. And under our constitutional arrangements, regulatory jurisdiction over the environment is split three ways between federal, provincial, and municipal governments which very much complicates the efficient regulation of ecosystems which of course do not respect political boundaries.

So, while enlightened regulation—especially macro-regulation—is an important tool to be harnessed to the task of environmental sustainability, it by itself is not enough. Something more is required.

Which brings me to a dark horse—a neglected horse in some respects—and that is the market system itself.

Harnessing Markets to Environmental Sustainability

Markets in their purest form are simply mechanisms for bringing supply to bear on demand, using pricing signals and financial incentives. In theory, a market mechanism can bring supply to bear on any demand—the demand for bread, or gasoline, or health care or the demand for clean air, sustainable forests, or re-usable water.

At the core of harnessing markets to environmental conservation is the task of attaching a price to those outputs of our extraction/production/distribution processes which have negative environmental effects—a price that reflects the cost of eliminating or mitigating those effects and that ensures that those costs are included in the price of the good or service being produced.

This of course is what the whole carbon-pricing debate—whether through carbon taxes or a cap-and-

trade system—is about, particularly in relation to ameliorating the environmental effects of the combustion of hydrocarbons. And the key question of whether market-based pricing systems can and will be adopted to control and reduce the emissions from the combustion of hydrocarbons really comes down to one of whether we as individuals, as businesses, and as a society are prepared to pay the price of this aspect of environmental conservation.

Also at the core of harnessing markets to environmental conservation is the task of attaching a price to the ecological goods and services delivered by ecosystems such as watersheds—goods and services that are currently under-priced or not priced at all.

Alberta, for example, is the largest per-capita consumer of “useable water” in the country—mainly because of the heavy use of water for irrigation, for secondary and tertiary oil recovery, and the vast amounts of water used in the production of oil from the Athabasca oil sands. In southern Alberta particularly, there is a growing danger of severe water shortages. So, how should Albertans sustain their water resources?

Presumably one approach would be to set up an elaborate water-regulation system—micro-regulation of water use—operated by some government authority such as Alberta Environment. Or the alternative would be some combination of macro-regulation and a pricing system—a provincial policy requiring Albertans to metre and measure the use of every drop of water consumed in the province and the attachment of a price to that water to conserve and allocate it efficiently.

Would such an approach impose some initial hardships and inequities on some individuals and industries? Yes, it would, and public policy would have to include measures for recognizing and mitigating those. But if you want a clear and comprehensive signal with respect to the value and environmental costs of using and sustaining

water resources to be sent to every water consumer, every day, dozens of times a day, every time any one of us turns on a tap or any business or industry sticks a pipe into a river or a reservoir, there is absolutely no substitute for communicating these messages through a properly established pricing system.

Can These Two Horses—Markets and Macro-Regulation by Governments—Be Harnessed Together?

Can they pull together? Can they be harnessed together as a team? Or are they inherently adversarial?

In the political world, partisan politics tends to polarize support for the use of these two instruments. People who have great faith in governments and government regulation are often skeptical and even antagonistic toward private enterprise and markets, while people who have great faith in markets and private enterprise are often skeptical and antagonistic to government and government regulation. Thus they present the public with polarizing, either/or choices.

But to me this is a false dichotomy, at least in this instance. Just as with respect to selecting instruments to promote economic recovery, the choice is not either/or—either government or private-sector action. The wisest course of action involves both, and our focus should not be on choosing between the two but on seeking the right balance between the two.

A Broader National Vision for the 21st Century

This task of reconciling economy and environment, and harnessing both markets and government regulation to the task of economic and environmental sustainability, would be greatly enhanced if we were to expand our vision of Canada as the Fathers of Confederation once did when they founded this country.

You will recall that the Fathers of Canadian Confederation were for the most part local political lead-

ers from the various British North American colonies. They had been largely preoccupied with the affairs of their own individual colonies, but when they got together in Charlottetown and Quebec City under the leadership of Macdonald, Cartier, and Brown, they were challenged to expand their vision.

And they responded by envisioning the creation of a new community—a Dominion, they called it—on the northern half of the North American continent. Their expanded vision was to create a new national community, uniting all the British North American colonies under a federal constitution, creating a single national economy with a common tariff, acquiring the vast territory of Rupert's Land from the Hudson's Bay Company, and then tying the whole thing together by building the longest railway in the world. What a change in perspective—from colony to nation! What a vision! What breadth! What depth!

So, what is the equivalent goal or vision for us today when environmental concerns are becoming as paramount as economic concerns? What is a vision for the future with the same inspirational power and scale as the Confederation goal but with the capacity to embrace environmental as well as economic sustainability?

Is it not to create a sustainable national community on the northern half of the North American continent, to sustain the ecosystems and renewable resources of Canada (the land, the forests, the water, the air, the wildlife) in such a state that the economy they support, the services they provide, and the beauty they represent are unimpaired for the use and enjoyment of future generations?

Conclusion

In conclusion, therefore, I offer you these three challenges:

- Help shift our conception of the economy to include its environmental dimensions and impacts

- Join in the task of harnessing both markets and government regulation to the task of environmental sustainability
- Embrace the expanded vision of a Sustainable Canada on the northern half of the North American continent, sustainable ecologically as well as economically

What are the prospects of achieving this Sustainable Canada? I would say high, not simply because of the growing present interest in these matters but because of how environmental conservation and sustainability are resonating with the up-and-coming generation of Canadian voters and leaders.

During my days of direct political involvement, I once visited the Robert Bateman School in the Fraser Valley of British Columbia. I was asked to speak on the various Visions of Canada, which I did. I briefly outlined the original vision of Canada as a partnership of two founding races, cultures, and languages—the English and the French. I talked about how that was later modified and expanded to provide due recognition of the contributions of aboriginal Canadians and the multi-cultural contributions of many new Canadians. And I outlined the Reform conception of Canada as a partnership of equal citizens and equal provinces—equal in law.

And then there was a question period in which a young girl got up and said this: “I understand the idea of Canada as a partnership between the English and the French. And I understand your desire to define Canada as a partnership of equal citizens and provinces. But would it be OK if my generation defined Canada as a partnership between its people and the land?”

That model—Canada as a sustainable partnership between its people and the environment—is already out there in the minds and hearts of many of the next generation. I am optimistic that the road to a Sustainable Canada

will be followed, because many of Canada's future voters and leaders are already on that pathway.

Thank you.

The appreciation of the meeting was expressed by Robin Sears, Principal, Navigator Ltd., and Director, The Empire Club of Canada.



Paul Brown, Partner, Campbell Strategies, Preston Manning, President and CEO, Manning Centre for Building Democracy, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



September 17, 2009

Christopher Alexander

Former Deputy Special Representative of the UN
Secretary General in Afghanistan and Former Canadian
Ambassador to Afghanistan

AFGHANISTAN AFTER ELECTIONS AND IMPLICATIONS FOR CANADA: WHAT WILL IT TAKE TO FINISH THE JOB?

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

The Reverend Dr. John Niles, Senior Minister, St. Andrews United Church, Markham, and Past President, The Empire Club of Canada; Naeem U. Hasan, Retired Ambassador of Pakistan, and Former Secretary-General of SAARC; J.D. Conrad, Lieutenant Colonel, Deputy Director JCSP DL, Canadian Forces College, Toronto, Canada; H.E. Habibullah Qaderi, Afghanistan Consul General, Toronto; Kathleen Thomas, Vice-President, Risk and Control, The Dominion of Canada General Insurance Co.; Jerry Dalla Corte, Vice-President, Head Office Operations, The Dominion of Canada General Insurance Co.; Shari Deonarinesingh, Grade 12 Student, Bloor Collegiate Institute; and Anetta Jewell, Partner, Great Lakes Brewing Co.

Christopher Alexander

Excellencies, ladies and gentlemen, I would like to thank Alf Apps for his warm introduction and the Empire Club for its kind invitation. It is inspiring to be back in Toronto—a city still prominent among the political shareholders in the international project that Afghanistan has become. Alf and I share a family association dating back nearly a century, when his uncle Syl Apps was emerging from Paris, Ontario to become one of the true greats of the Toronto Maple Leafs—and my great grandfather was the town's Baptist minister. I am afraid the Leafs are unlikely to be rescued today by renewed piety. To be frank, their misfortunes now predate even Afghanistan's! But the ties of family and shared commitment that bind us in Canada to the destiny of that faraway nation are now undeniable.

It is comforting and a bit daunting to be among so many friends. Craig Hilton, now heading the Canadian Defence College here in Toronto, was one of the most capable commanders of Canada's Task Force Kabul in my time as ambassador. Albert Wong was an outstanding member of the first Strategic Advisory Team. Matthew Fisher and Christie Blatchford were second to none among journalists covering the Afghan saga. We are also privileged to have with us both Afghanistan's Consul General Habibullah Qaderi and Mr Naeem Hassan, a former Ambassador of Pakistan and Secretary General of South Asian Association for Regional Cooperation (SAARC), now an advisor to the Canada-Pakistan Business Council.

This presentation will seek to answer four relatively simple questions, ending with the all-important issue of what it might take to bring stability to that troubled nation. The news this summer has been worse than ever.

The frequency and intensity of attacks—both direct and through IEDs—have grown. Afghan and international casualties are running at unprecedented levels. The unresolved outcome of the August 20 election continues to hang in the balance, adding a new dimension of political uncertainty. Economic growth in Afghanistan has paused, even dropped—not because of the global recession but because of fear for the future. A rising tide of insurgency has imperiled the institution-building process itself, calling into question the durability of the achievements of the past eight years. How did we get to this point?

Why are we in Afghanistan?

This audience needs no reminding of the trauma of 9/11—a day that still haunts us. It was an attack on this continent—one of the last since 1812, when the White House in Washington was burned by British and colonial forces—in part to avenge the burning of the fort and town of York right here on Toronto Harbour.

Nine-eleven was a terrible, unexpected act of destruction—a massacre of innocents, perhaps the most brutal single terrorist attack ever mounted in modern times. It was followed in subsequent years by major attacks in Bali, Madrid, London, Istanbul, Mumbai, Rawalpindi and many other cities. As many serious attacks have been thwarted thanks to the efforts of security services and law enforcement agencies at Heathrow, in Germany, in Canada and in the United States.

The 9/11 attacks were planned from within Afghanistan. Some of those responsible were killed or captured in the military campaign that began in October 2001. Many more, including the leadership of Al Qaida and its principal Taliban associates, withdrew into Pakistan where they have remained ever since. It is effectively this force that has prevented Afghanistan from achieving stability in the years since 9/11. After a brief period of flight and concealment—the so-called “fighting

retreat” of 2001–03—Al Qaida and the Taliban leadership of the Islamic Emirate of Afghanistan renewed their military campaign in three stages: (i) reconstitution in 2003–04; (ii) re-launch of Afghan operations in 2005–06; and (iii) declaration of jihad against Pakistan in 2007–08.

There is obviously much more to this conflict than simply the legacy of Al Qaida and the Taliban. The latter came to govern Afghanistan briefly—for barely more than half the time President Hamid Karzai has been in power—only because of successive waves of conflict, culminating in a period of civil war lasting from 1992 to 1996. It is this period Afghans remember as the most cruel chapter in the 30-year chronicle of their country’s conflict since 1979. It was during this time that donor nations, so keen in the 1980s to see the mujahidin succeed against Soviet forces and the Afghan armies of Karmal and Najibullah, turned their back on Afghanistan—which became a “settled account” after the Soviet withdrawal in 1989. Afghanistan entered a period of neglect, as the international community grappled with the complexities of the reintegration of Europe, new conflicts in the Caucasus, Balkans and Africa, and the dissolution of the Soviet Union.

Today Afghanistan has regained international attention—to put it mildly. Over 60 nations have become donors. Over 40 have troops on the ground; none has yet withdrawn. Over the activities of the United Nations Assistance Mission in Afghanistan (UNAMA) and the International Security Assistance Force (ISAF) spreads the sheltering mandate of the United Nations Security Council, unanimous in renewing these missions for eight years running. We are in Afghanistan to prevent another 9/11; to make up for the neglect of the 1990s; and to achieve objectives set by the United Nations.

We are also there because NATO—an alliance originally conceived for European purposes—invoked Article 5, the provision deeming an attack against anyone to be an

attack against all, for the first time in its history in 2001. NATO assumed command responsibility for ISAF in the summer of 2003. To date all NATO members have fielded forces together with 15 further states—from Europe, the Middle East and Asia.

Afghanistan remains one of the poorest countries in the world with development indicators in 2001 below those of any other population outside Africa. Our commitment to eradicate poverty, and to the Millennium Development Goals (MDGs), requires us not to abandon this cause. We are also in Afghanistan to protect the human rights of Afghans, systematically abused over decades of shattering war, now further imperiled by civilian casualties, mostly caused by the Taliban itself. We are there to meet humanitarian needs because of the Responsibility to Protect, and to implement the human security agenda articulated in multilateral fora throughout the 1990s.

But deeper issues have prolonged our stay. Jihad in the 1980s had roots in the Frontier Policy of the British Raj. It became an article of faith for officials in pre-Partition Governments of India, Punjab and the Northwest Frontier Province that Afghanistan must be managed as a buffer state—with power in Kabul never permitted to fall into the hands of an enemy of British India. This policy precipitated three wars, bringing Afghan foreign policy under effective British control from 1880 until 1919.

This policy thrust had major implications for Canada. It was in part to meet the demands of consolidating control in the Indus Valley that Upper and Lower Canada were united in 1848 and Confederation agreed in 1867. Cost-cutting measures in North America would help meet the pressures of expansion in South Asia. The 1857 Mutiny galvanized the Frontier Policy even further. The British North America Act is itself explicit on this point: our federation was intended to meet the needs of the

Canadian colonies themselves and the British Empire—then less than one decade old.

The Frontier Policy was cemented by the Treaty of Gandamak in 1879; by Emir Abdurrahman Khan's installation in 1880; and by the Durand Line Treaty of 1893. It was further entrenched by Curzon's creation of the Northwest Frontier Province in 1902. It survived partition to become a core feature of Pakistan's foreign policy, used to counter Afghanistan's "Pashtunistan" policy in the 1950s. In 1971, Pakistan's Afghanistan policy gained strategic importance after the loss of Bangladesh.

What doctrine lies at the core of the Frontier Policy? In the time of the Raj, it was a policy of consistent involvement in Afghan affairs to protect the interests of Calcutta and Delhi and keep potential enemies at bay. In the post-1947 world, Karachi and later Islamabad have continued it—largely to undo the influence of Afghanistan, Iran, the Soviet Union and India when seen as harmful to Pakistan's national interest.

It is the interference of the Pakistan-based Taliban in Afghanistan that is the principal cause of the continuing conflict today. This Taliban wishes to re-establish Afghanistan as an Islamic Emirate, having already declared one in North and South Waziristan, as well as other parts of the Federally Administered Tribal Areas (FATA), the North-West Frontier Province (NWFP) and Baluchistan. Their supporters inside Pakistan argue assistance to the Taliban is justified in light of Indian influence in Afghanistan. As a result, the Frontier Policy is a new flashpoint for competition. Until this pattern of interference ends, there is little prospect for peace in Afghanistan.

In summary, we are in Afghanistan for five principal purposes: (i) to prevent further terrorist attacks along the lines of 9/11; (ii) to boost development and institutions devastated by 30 years of war, including the neglect of the 1990s; (iii) to achieve peace and security under a United

Nations mandate; (iv) to protect civilians, meet urgent humanitarian needs and strengthen human rights; and (v) to uphold the Westphalian principle of non-interference. It is the last that has so far been hardest to achieve. Failure on this front will continue to make the entire project vulnerable, imperiling the credibility of the UN and NATO over the longer term.

What has been achieved?

If there is to be any hope of mobilizing the political will necessary to tackle these issues, it is vital that the achievements of the past eight years be properly assessed. The Taliban regime that ruled from Kabul and Kandahar is no more. Its place has been taken by a strengthening set of state institutions now delivering education, clinics, road building, rural development, support for agriculture, public-expenditure management and regulation in fields such as monetary policy, construction and telecommunications that are unprecedented in Afghan history.

While the conflict continues unabated, with even some further intensification this year, the Afghan National Army (ANA) has reached a strength of 100,000, with brigades now deployed to all parts of the country. Its commando units, air corps and logistics units are now capable of supporting operations nationwide. The National Directorate of Security (NDS) delivers invaluable direction to what is at bottom an intelligence-driven counterinsurgency campaign. For the first time this year, the National Police under the leadership of Interior Minister Atmar are achieving the scale of training effort required to give gendarmerie, criminal and civil police national coverage—and to raise competent guard forces for each community.

Afghanistan has become a new lynchpin for a burgeoning regional economy—anchored in Economic Cooperation Organization (ECO), SAARC and Shanghai

Cooperation Organization (SCO) integration. Both the ECO and SAARC have set the goal of achieving free trade among their members. Civil aviation has improved. A major mining investment is underway in Logar south of Kabul in one of the largest copper deposits in the world. Afghanistan's craft and carpet industries are recovering. The country has implemented the largest demilitarization programme in the world—including ammunition destruction, mine action and disbandment of illegal armed groups.

There is a blueprint for the country's future—the five-year Afghanistan National Development Strategy. Approved in 2008, it covers 17 sectors and five crosscutting themes. It is complemented by a National Drug Control Strategy, as well as a counter-insurgency strategy, now properly resourced thanks to President Obama.

What does this mean? The state is getting stronger. The Afghan economy is growing by 7 per cent again this year. Drug production has been rolled back into the southwest, where the insurgency is stiffest. Most importantly, Afghans are in control of their own destiny with more talented ministers than ever able to set priorities and pursue results within a unified budgetary process and cabinet system facing ever more demands.

Obviously this is not enough for Afghans by and large still mired in poverty, with staggering levels of unemployment. As investment flows have increased, so have the perception and reality of corruption inside government and out. Implementation is slow in virtually all areas, as the capacity simply does not exist to manage projects and deliver results, particularly at the local level. Local governance has remained an area of constant frustration and friction both for Afghans and internationals, as weak human capital—smart men and women who simply lack the skills to do the jobs that need to be done—slows the pace at which urgent human and community needs can be met.

The new government has tackled some bottlenecks this year—particularly by strengthening interior and agriculture ministries, and energizing reform programmes for both sectors. But the insurgency has hit hard, rolling back progress in many areas, preventing the rollout of new programmes in others. Now the controversy over the August 20 elections threatens to overwhelm all of these achievements by calling into doubt the legitimacy of the Afghan government itself. All eyes will remain fixed on the Election Complaints Commission—itsself headed by a very capable Canadian, Grant Kippen—as it struggles to separate fact from fiction, to sift and weigh allegations of fraud, and to determine whether a second round of voting will be required.

Why is the insurgency stronger?

The conventional wisdom has it that two factors drive Afghanistan's Taliban-led insurgency—one set is internal; the other external. There is no doubting the importance of the former. Weak governance, predatory police, civilian casualties and treatment of detainees have played a role in inflaming this conflict, as have tribal grievances aggravated by the rough-and-ready transition of political power in 2001.

But after six years in Afghanistan, I must confess that the external reasons have primacy. Without the sanctuary of North Waziristan—now perhaps the greatest playground for international terrorists on earth today—there would be no complex suicide attacks in Kabul and elsewhere. Without the Taliban leadership based around Quetta, with recruitment, training and command support throughout Baluchistan, the insurgency in Kandahar and Helmand would be an order of magnitude weaker.

In the face of the whole world, it is the stated purpose of the Taliban leadership to reestablish an Islamic Emirate in Afghanistan. They make these pronouncements from Pakistan. Their leaders reside in Pakistan. Taliban ele-

ments have attacked Pakistan in growing waves since 2007. In this regard, the failure of the Pakistan army and other security forces to move against these groups is as inexplicable as it is scandalous.

All the same, there are reasons for this inaction. President Musharraf is characterized by some as having been nonplussed by the Taliban's loss of power in Afghanistan, and determined to keep them in reserve against the day when a comeback would be possible. Civilian government in Pakistan since 2001 and even since the success of the Pakistan Peoples Party (PPP) at the polls last year has been unable to challenge this military consensus rooted in both the army command and the Inter-Services Intelligence (ISI). The religious parties and other Taliban allies take genuine offence at the presence in Afghanistan of so many non-Muslims as they did during the decade of Soviet occupation. Finally, the strategic thinkers both inside and outside the army and ISI remain determined to pursue "strategic depth"—Pakistani influence through Afghanistan into Central Asia—at all costs: with the Kashmiri front inactive for now, they see this as their principal arena of rivalry with India.

What will it take to finish the job?

The first investment we need to make to have any prospect of seeing peace and stability come to Afghanistan is one that has been scarce of late. Its absence from the scene is itself a paradox, as it is the one crucial ingredient for success that is absolutely free. Here of course I am speaking of the will and determination to tackle the fundamental issues still driving the conflict.

It has been fashionable in some quarters to believe or argue that "nothing good will ever come of Afghanistan"—a view bred into the bone of British subjects after their experience of three imperial wars there, ending in 1919. It is also common now to mythologize the Taliban as "sons of the soil" fighting a just cause against "occupying

forces.” These opinions are not only difficult to square with the fact that over 40 nations, including several with muslim majority populations, have sent forces under UN mandate into combat against the Taliban. They are self-denying fallacies: if we cannot overcome them, we should not be in Afghanistan at all.

This is not a “forever war.” It has been a neglected war. It has been an under-resourced effort. It has been a campaign in which political leadership has been weak, or failed altogether. But there is no reason why it should continue without end.

The nettle of sanctuaries in Waziristan and Baluchistan must be grasped before further harm is done to Pakistan, Afghanistan and other parts of the world. The regional dimension must be understood for what it is, and any imbalance redressed.

As President Karzai has repeated during the recent campaign, there must ultimately be a political settlement with the Taliban leadership on acceptable conditions, with accountability, and within existing constitutional frameworks.

Above all, we must continue to support—on a growing scale—the Afghan institutions for which there is no substitute. Without them, we ensure ourselves a long stay. With them, as the army has shown, as other sectors are poised to show, Afghans will have the tools and the partners to finish the job of rebuilding their country.

This has been the first year in which the political attention and resources required to bring stability have been available. We must not expect results overnight. But nor should we abandon hope just as we begin to give this project our best effort. This is an historic opportunity to stabilize Afghanistan—one which our generation must not miss.

President Obama is renewing the unity of the international community. Despite the controversy over elections, there is still a remarkable correspondence of view among

the nations of Europe, North America and Asia—including all neighbours—over the need to continue and even deepen support to Afghanistan.

Our efforts must continue to focus on three areas: peace process, massive institution building and effective counter-insurgency, with protection of civilians at the centre of the equation, and all necessary steps taken to end the impunity and scatter the leadership residing in cross-border sanctuaries. This dagger must be definitively sheathed.

My call is for tenacity and perseverance. Afghanistan has shown it can achieve results when the right support is given. Take the safeguards now working to protect a legitimate result from these elections under the leadership of Canadian Grant Kippen. Take the example the Pakistan army has set in Swat and South Waziristan. Take the renewed Afghan cabinet capable of shouldering ever more of the development and stabilization burden. Take the example of humanitarian action. Look at Peace Day on September 21, when again the guns across Afghanistan once again fell silent.

Ladies and gentlemen, Afghanistan remains a pivotal arena in which prospects for international peace and security for this century will be decided. I invite you to join me in showing the determination to finish the job—one in which Canada has figured so prominently from the beginning, together with our partners from around the world.

The appreciation of the meeting was expressed by Reverend Dr. John Niles, Senior Minister, St. Andrews United Church, Markham, and Past President, The Empire Club of Canada.



September 29, 2009

Sir Terence Matthews

Chairman, Wesley Clover, Chairman, Mitel and March Networks and formerly CEO and Chairman, Newbridge Networks

THE CANADIAN TECHNOLOGY SECTOR IN THE WAKE OF NORTEL. ACT NOW OR BE ACTED UPON!

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Verity Craig, Managing Director, CV Management; Caitlin Craig, Grade 11 Student, Country Day School Student Council; Paul Donnelly, President and CEO, Macquarie Capital Markets Canada Ltd.; Ken Campbell, CEO, Globalive Wireless; Neil Selfe, Director, The Empire Club of Canada, and Managing Director, Investment Banking, GMP Securities; John MacDonald, CEO, MacDonald Ventures, and Former President of Bell Canada; Dean Provost, President, Enterprise Solutions Division, MTS Allstream; and Mr. Grant Kerr, Minister, St. Paul's United Church, Brampton.

Introduction by Alfred Apps

Terence Matthews

What a great introduction. Alfred, that was something else. Why am I here? Why should I be talking to this audience at the Empire Club? The truth of the matter is I guess I'm a business person. I've started up over 80 companies and many of them have been successful. All but four have been successful for me. It's averaged out pretty well for me. I've started them up from scratch. I'm an entrepreneur and a businessman. I'm an engineer. I like being an engineer. I'm an enthusiast. I enjoy what I do. I absolutely love what I do. It started when I was an apprentice at 15 working in a research department for what was then the British Post Office, and looking at new radio systems, microwave.

The whole loop has come back around for me because there is about to be a war in broadband wireless. Many of you will not be able to see this happening yet, but starting early next year, there will be a monster war. It's almost like a sea change in networking that will go on to create broadband environments around the planet, beginning in the United States, surprisingly. The U.S. has not actually been a leader in the mobile environment, but it's about to happen. You'll see that next year. I'm all over that subject. A few of the companies that I've started are absolutely maximizing their position in that. You'll see DragonWave, for those of you who follow stocks in that sector, currently moving to a NASDAQ listing, and growing very, very rapidly; Bridgewater, the management of the networks, the management of the policies, is growing again with that monster change, the sea change that's happening in the world of networking.

You see the truth is, as an enthusiast, I enjoy it all—the good, the bad, and the ugly. In particular, of course, I like to take advantage of the good. An enthusiast can sometimes see something coming up before others can just

because that's what they enjoy. I'm an enthusiast in the particular sector of networking and applications.

Let me speak a little bit about Nortel because I'm very sad about Nortel. I'm very Canadian. The fact of the matter is this was an icon, a flagship, \$12 billion a year. It's disappeared so quickly. How could such a thing happen to a \$12-billion-a-year company, with R&D spending of about \$2 billion a year? What's to happen to our society? How can the flagship go down? Did the government ignore it? Can we blame the government? Was it senior management? Can we blame the senior management, or blame middle management, or blame the market? There are so many facets. There's a side of Nortel that you probably would never experience the way I have.

I started my first company in 1972. As I explained to you, there have been many, many other companies that I've started up. The truth of the matter is Nortel people were the most arrogant, difficult sons of bitches I have ever come across in my life. I have had partnerships with Siemens and Alcatel and Ericsson. Ericsson is one of the most difficult companies I have ever dealt with, but none of these compared to Nortel. They wouldn't partner. Something like the immune system kicked in. They'd agree that there was a technology hole, but the immune system would kick in and kill the partnership.

I am a sincere believer that partnerships can make a company stronger. Imagine the auto industry without its partners. You can buy a Toyota or you can buy a General Motors car or any of the main makers, but they don't make glass, they don't make bumpers, and they probably don't even make the transmission systems. They have their partner companies, world class in their area, that put their products together, assemble it and sell it. They don't do everything themselves.

Nortel had a "Not Invented Here" attitude, which was the biggest stripe of NIH I've ever seen in my life. That's the side you didn't see. Having said that, I'm still very sad

to see the company go down. I'll tell you a little bit about it.

I worked very hard. When Jim Prentice became Minister of Industry, I had a meeting with him after he was two days on the job. We spent the best part of an afternoon talking about the industry situation in Canada, particularly the technology sector, which is my sector. My number-one item was what was he going to do about Nortel, because it was in trouble then. The trouble got worse. There are many facets as to why such a company could be in trouble. It was such a world leader, a Canadian flagship, and supported by all our trade officers around the world. How do I know? Because I talked to them. Whether it was Beijing, Hanoi, or Singapore, every time there was a project, Export Development Canada (EDC) would look towards helping to fund it and the trade offices would promote Nortel because everyone knew the name Nortel. All the trade offices knew Nortel. It's gone; \$12 billion removed. The biggest exporter in the country, the biggest company regarding research and development, is gone.

Could the government have done something about it? It was a hot potato and such a mess. Nortel made some serious errors in trying to get the government to help.

The auto industry did a great job involving their suppliers, their partners, and the large distributors. Of course, they got support because they went about it in the right way.

I gave some advice quite frequently to the most senior people in the company. They knew that they'd screwed it up. You can't go to a government and say, "Here's our plan," and two or three weeks later say, "We've got another plan." Governments can't respond that quickly. They just simply can't. Their plans were like a yo-yo, up and down like a yo-yo, awful.

I know a lot about the Nortel downfall. For two years I tried to work with the company. I had no interest in terms

of ownership, but I did have an interest from a sector perspective. I hated what was going on. With many of the product lines, they were not only not the best in the class, they were among the worst, and very badly managed. So there were many, many aspects. I don't really totally blame senior management or the board of directors or the government. When all of the little negative line items were put together on the balance sheet, it went down.

Where are we going? I always like to take a look at history and learn things. I'm a bit of an historian as well. Charles Darwin said, "It isn't the biggest or the fittest that survive; it's those able to adapt."

I do my own little thing. I adapt. I travel more than most. I could say to many people here, "Who's been to New York in the last year?" Everybody would put his or her hands up. "Who's been to Montreal?" Everybody would put his or her hands up. "How many people have been to London?" Fifty per cent would put their hands up. "How many people have also been to Beijing and Shanghai and Singapore and Sydney?" There wouldn't be many hands up. I have because I like travelling and I like doing business.

I deal with people in the largest companies. I deal with people in the telco service provider environment because this is my peer level; this is what I enjoy. I have eyes that see many, many things—the growth of Shanghai, the growth of Singapore, Hong Kong, the growth of Beijing. Good God, these societies are growing at a terrific rate. There are too many Canadian companies not taking advantage of where the growth is. They are trying to grow only within the United States because that's easy, with the same language, big border, similar culture, but it's not good enough. We have to travel around the planet. I enjoy that.

What do I do? Let me go through what I do. I start companies up. I've already explained that to you. I've developed over many years an ability to create what I call

an affiliate model. It first started with Mitel in 1972 with \$4,000 that I borrowed from the bank. I started up this little company and within nine months I had the first product. Mike Copeland and I designed a tone receiver within nine months working around the clock. It happened to hit the right market at the right time. We sold this at \$150 compared to the competition at \$1,500. It worked better and had much better specifications. We just took off on tone receivers. We were the first company to develop a software-driven microprocessor-controlled PBX. Again, it took off. Some of you here will remember when we took the company public in Toronto in 1979.

Then I created my first start-up other than Mitel. By 1981, the company was already well known. After a period of let's say 1976 to 1981, in 1982 we went from being nobody in switching systems to being in 90 countries. We went from a company with shares worth \$1.00 a share in 1973. By 1983, each \$1.00 share was worth \$2.5 million. It was divided many, many times to make it within reasonable range, but was a very good return on investment, I might say.

So Mitel did very, very well. It was in 1981 that I began my affiliate model. You see, by then Mitel had thousands of clients. There was a change in the politics of the world of communications. Suddenly long-distance providers other than Bell Canada and ATT could offer long-distance services in the early '80s. That meant that you'd have to pick up a phone and dial a seven-digit code through the local exchange, the local central office, to connect to the long-distance operator. Then you got another dial tone. Then you could dial 1, clink, clink, clink. It was possible to build a little equal access dialler. When you picked up the phone and dialed 1-613, clank, clank, clank, clank, it inserted the seven digits. What a great investment that was. It could never have taken off without all of the clients that Mitel had, because when you start up a company you have no credibility.

Let's suppose you go along to a very large company like France Telecom and you've got a brand new company, a great product, that they actually need because timing is right for the product, and say, "I'm from Purple Lips." They say, "Who the hell is Purple Lips?" "Well, I'm the CEO. It's a great company. It's been running now for five months." The chance of getting business is below zero. You don't have a contract with them and large companies are reducing the number of suppliers they have got, not increasing them. Purple Lips would never, ever have got that business. But if Mitel goes in, they say, "Oh yeah, we buy from Mitel. What have you got?" "Well, we've got this equal access dialler." You see, the credibility is there from the get go. You don't have to have a marketing department and a sales department to help create credibility.

With less than \$100,000 investment, in fact it was \$80,000, four new graduates, one individual that was not a new graduate, and guess what? Up came the sales. The timing was right. In the first year we did about \$4 million; in the second year almost \$20 million. Then it jumped to \$60 million. That equal access dialler company I called Datacom. I gave one-third of the ownership to Mitel at no cost just to create the goodwill that would allow the salespeople to sell the product. It shot up.

It stayed at \$60–70 million a year until the year 2000. By that time, all of the areas of the planet had gone to an equal access environment. It was funny that by 2002 there were no sales. That era was over. We had a long period of time with very high margins, 80-per-cent margins. So that was a terrific run with that product. I learned a lot. I learned that the ability to have a larger company as a strategic partner to get out there, knock on doors, and help the sales, can make a new company take off. I've done that time and time again.

The next big thing was Newbridge. I was already pretty wealthy by then. I'd started the company up with \$12 mil-

lion. After only a year there were 140 people in the company. First year \$1.3 million, the second year \$16.8 million, the third year \$68 million, and I took it public. It went public in three years. Newbridge was up and running and selling data networking product, and then I began the affiliates again—start-up affiliates around Newbridge. That was when I created Celtic House; Celtic House Fund I, I called it. It was really all my funding that started companies up and it made one hell of a difference to Newbridge that suddenly the company had all of these capabilities that it wouldn't have had on its own.

A large company, as it gets bigger, becomes a public company and so on, with lots of shareholders, and they have what I call above-the-line R&D spending. In other words, there's a budget and to increase the budget beyond that is very difficult. Within the budget are things that you've committed to clients. It might be ATELCO, France Telecom, BT, it might be a large company, like the Royal Bank, whatever, but there will be committed spending. That's what I call above-the-line. Then there's a long list of what you'd like to do, but frankly there's no budget for it; otherwise, you don't have good control. It's in that long list that you have some little nuggets, some diamonds. If you can spin that out as an associate, then the company that you started as a strategic partner can sometimes strengthen your position because it's got something new that clients want.

I rarely make that an exclusive arrangement. The facets, the advantages that come from a strategic relationship, a good relationship where both sides gain something, have been seen by me time and time and time again. At this point, I have many strategic partners. Some of them I have considerable ownership in like March Networks, that make surveillance systems, highly sophisticated, and used by pretty much all of the Walmart stores, eight of the top 10 U.S. banks, eight of the top 10

Mexico banks, a lot in Europe and so on. We are growing very fast, with lots and lots of clients.

Mitel has about three million clients now. Most of them, of course, are very small, but some of them are Fortune 100. All kinds of new solutions are needed by each one of the market sectors—retail, hospitals, hotels, hospitality, and so on. Every stripe of client that you can think of is moving towards a new underlying network, an underlying network that has gone from narrowband to broadband.

I could ask everyone in the room, whether they have a broadband network at home. I won't do it because it's like asking who has a mobile. Of course you've got a mobile. Of course you've got broadband networks at home. How many people have broadband wireless networks? Nobody because we don't have them yet. They start next year and it is a monster swing in technology. The truth of the matter is that until the year 2001, no one could say they had broadband networks at home for the Internet because we didn't have them.

Digital Subscriber Line (DSL) began in the year 2000 in London, Toronto, and New York. That's when it started up. All industries, even this hotel, are moving towards broadband, either Ethernet or Wi-Fi. There is a broadband revolution taking off around the planet. The next stage of that is wireless. Hence the growth of DragonWave, hence the growth of Bridgewater, hence the growth of BelAir, which is a company just down the road. I helped to start that one up. This is an underlying change that's happening in a very short space of time called broadband. The broadband underpinnings, the low cost for broadband connectivity, is opening up monster opportunities in every country, in every industry segment you can think of.

Some people in the audience will say, "How does he do it? How can you keep starting up companies and making them successful." First of all, I'm an enthusiast. I began by

telling you that. I understand the industry from the deep, deep levels down at the copper wire up to the applications and even the content. We have a little saying at Wesley Clover, my little umbrella company, which I always make investments in. We have a little saying: "Act or be acted upon." Applications, content and transactions are where value is. Every time you go up beyond the copper wires, up through the switching, the highest level of applications and solutions are where the absolute maximum value comes from.

If you go home tonight and put the TV on to watch the news, do you say, "I wonder if that was a one-megabit link? Perhaps it was a 10-megabit link. It could have been a 100-megabit link." Tell me what that has to do with anything. You went home to watch the news and it had better be good or you will change your supplier of the news. The truth of the matter is the news is the value. There are all kinds of ways of getting news to you. The solution side, the applications, the content—in this case it was the content—and the transactions in every industry sector you can think of is a little piece of chemistry that I build up with associated companies to those larger strategic partners and it works.

I've got other pieces of the little formula that I'll tell you about, but that is what I do. I connect new companies through their strategic partner. The strategic partner helps to sweep them through to the clients. With credibility you can get business up front. I'll tell you a bit more about that, but as for Nortel, there were many facets. We can't blame the government; it's not the government's fault. We can't blame senior management; it's not totally their fault either.

Here's a little question for you so you'll begin to understand the environment. If you do business as Nortel did around the world, how devastating and humiliating it would be to try and get business, after putting lots of energy into going after a client that might be in Africa or

South America or more recently in the western world, and putting tons of energy into responding to a tender, and a Chinese company came in at one-third of the sale price. You didn't make it. How do you fight that one? Even if you thought you could still beat them because you had better performance, and there's 10 years' worth of credit provided by the government, you're just out. We should all think a little bit about that. What's in our future?

There are a few companies in this sector in China. Guess how they behave? What does it cost to hire a really good new graduate engineer in China? Anybody know? I know because I hire them. How about India? India is about \$6,000, \$7,000 a year; China is about \$5,000. Because there's a lot of competition in Shanghai, Shanghai would be more like \$8,000, \$9,000 a year. The average is about \$5,000. How do we in our Canadian society go around the planet and do well in that environment? How can I start companies up in Canada and sell around the planet and do well? What's my formula?

My formula, as I explained to you, is that I take a strategic partner with existing clients and I take new Canadian graduates. I pay them \$25,000 a year, but they work around the clock. How do I get them to work around the clock? They do it because they want to do it. They do it because I select the people who are entrepreneurial and have the work ethic to do it.

Think about this. Are new graduates typically married? No. Do they have children? Typically not. Can they work around the clock? Yes they can. They come out with a product in less than a year. Look who's asking them to join. I say, "When I started Mitel, I did it with \$4,000 and the first product came out in nine months. Maybe you can do the same." It's interesting; some of them do it quicker than I did it. Perhaps they're smarter and work a little harder. They work Sunday night when everyone else is at home watching TV or out at the cottage. How do only four students, who are new graduates, new engineers, do

that? With determination, persistence and proper guidance.

Think about this. In the time that China's come to prominence in our society and Indian outsourcing has become prominent in our society, how could Google be successful? They're not paying \$5,000 a year for engineers. How could Google become successful? I know. Was it a spinout of Bell Labs? No. Was it a spinout of B&R and Nortel? No. Two new graduates started a company, now the size of Microsoft, in the time that China and India had engineers at \$5,000 a pop. The key was first-mover advantage.

So what do I do? I hire new graduates. They work around the clock. They don't get paid much. They don't need much because they work all the time. They don't spend any money on anything else. They are totally dedicated to the cause. If they're not, I have no time for them. If they want to be industrialists, they have to do what they have to do to set up a good company and be totally committed to that and they are. We have some of the best graduates on the planet in this country. I encourage them. I don't carry the ball for them. They have to do that, but I guide them. I ask for regular quarterly reports. You might say, "Well, what have they got to report on? It's a start-up." They have to get used to putting out quarterly reports. I want to see quarterly reports. Then I tell them what I want.

When they start gaining revenues, I want that reported. Sooner or later they'll need quarterly reports because they might be an initial public offering (IPO) candidate or they might be a takeover candidate. It takes day-to-day tackling. It takes day-to-day grooming, but it works. It's the new graduates. It's the enthusiasm. They have no baggage, razor-sharp focus and engagement with clients up front, not after the technology's completed.

I have a position in life that I can go and visit the chief information officer (CIO) of one of the biggest hotel

chains, one of the biggest retail chains, or a government department. I go in and say, "This is what we're developing now. What do you think?" The CIO will say, "That's important," or "Do that another way," or "That is really something." They're profiling the product. Not only are they profiling the product for the R&D stage, you're marketing it and you haven't yet got the product. If you wait until you've got the product and begin promoting it, you have lost a year. I talk to them up front before the R&D's done in some manner in which they relate. They like this, like that, don't like this, or recommend another way. They're specifying the product. Then you deal with a second potential client and the product is honed even more. Before you know it, you've got a specification, you know the market's ready and you just hammer it out fast. When you sell it, you sell it with a strategic partner. It works. It's a little chemistry.

I'm telling you some of the easy things. There must be 100 other little things that hone the product down. Chemistry has a lot to do with it, but the graduates have to work day and night to get the product out. When the first product comes out, they feel good. I help them to feel good with a little party in front of the other start-ups, which in turn encourages them. It makes one hell of a difference. These kids are only 22 years old and love the idea of being part of a company that sells around the planet. They love it. And of course I've lived it. They talk to me about all kinds of things. It's very easy for me. That's what I do.

Some of the technology's absolutely spectacular. Just within the last couple of years I started a company called Beinn Bhreagh. Beinn Bhreagh was the first home that Alexander Graham Bell built. I came down on the flight today and somebody sitting next to me said, "Oh, Beinn Bhreagh, I know where that is. That's on the Bras d'Or Lakes in Cape Breton. I was brought up around the corner." That was the first person I've met that actually knew

that Beinn Bhreagh was a house that Alexander Graham Bell built. The company makes a mass notification system and sales are growing very fast. They finished the first development a year ago and this year they'll do over \$1 million, absolutely no question about it.

Imagine how many people have bought large, flat-panel TVs. Everybody. You can even go to Best Buy and other companies and buy a 65-inch TV flat-panel for less than \$5,000. How it's come down. Only three years ago you couldn't buy one at all. Now production lines are cranking them out. I say, "Do you know what? I can build some algorithms to create a telepresence environment." We call it telecollaboration.

A company called Magor takes high definition and runs it down the Internet. Sony said that it couldn't be done. When we demonstrated it, a group of engineers came from Tokyo and said, "We don't believe it." They looked at the algorithm and said, "Oh, very innovative." We patented it. It's a very interesting way of doing high-definition telecollaboration in an environment, which is the Internet. It goes up and down with jitter and changes in bandwidth all the time. It is very, very interesting technology that's now manifested itself in a production company.

How many people have seen walkie-talkies used all over the planet? They're in a network of their own—little walkie-talkies. We started up a company called Telio. This is a good one. Only three new graduates, believe it or not, worked harder than most of the other graduates. They just kept at it day and night. They came up with a product in six months. They went to Las Vegas at the Motorola Annual Show and got first prize for the best application on walkie-talkies. They made bigger R&D groups look stupid. Three new graduates in six months cranked out a new product, and received top prize at the Motorola Show in Las Vegas. What does it do? We connect those walkie-talkies. They still work as walkie-talkies, but a little plug-in module allows them to be an extension of a PBX.

There are special advantages with the Mitel IP PBX, but it'll work with anybody's PBX. This company is getting so many new business opportunities I can't believe it.

These are simple examples of the many things that I do. Maybe the ones that are most popular today and that you would relate to would be DragonWave that creates a new type of architecture on the back hall for broadband wireless data networks. Next year it will simply explode with new technologies known as LTE and WiMAX. Already underway is a war that you will all be affected by. You may not relate to it, but there's definitely going to be a major war between Sprint, Clearwire, Verizon and ATT, an absolute outright war. We'll all be affected by it. The outcome of that war will affect the planet.

There are competing technologies. LTE is typically up to 100 megabits per tower instead of the standard cell towers today, which are about four or five megabits, probably a 20-to-1 jump or WiMAX 802.16, a similar kind of bandwidth, but a different standard. It's definitely a war. Clearwire has the edge because they've come up with something more than a year earlier than LTE, which is the next generation of GSM.

ATT has a different scheme. They say, "All our networks are being congested by iPhones." You see, with iPhones, Apple doesn't compress the files. The user interface is terrific. Nobody could argue Apple has a terrific user interface, but it doesn't compress the files—BlackBerry compresses—so it chews up the network. There are many cities where ATT operates that are getting so congested people are saying, "I'm giving it up; it doesn't work." The connectivity is so bad it's basically choking up the network. There has been a 700-per-cent increase in iPhone sales between the second quarter of last year and the first quarter of this year. ATT has an exclusive on that. You'd say, "Good old ATT, they have an exclusive." Is that an advantage? Not if it's choking off all the networks. So what do they do? They offload the net-

work. In premises like this, or in government, public places, restaurants, and hotels, they put Wi-Fi 802.11 broadband, offloading the network. They have to or the network will become choked.

This is the beginning of a very, very big war in the U.S. It will spill over into Canada, no question about it. You watch this war. I'm all over that and taking advantage of it. As an enthusiast, I was able to start up DragonWave sometime ago. It is a public company in Toronto doing very well right now. Bridgewater is another one. A friend of mine, BelAir, is doing all the Wi-Fi networks for ATT, Comcast, Time Warner and Cablevision, all the offloading. We have a sea change coming up in network and in networking that will affect all of us—the devices you use, the network capacity and the information. Remember ACT—applications, content and transactions—are the key three items that I work on.

What did I leave out? I'm sure I must have left something out. I didn't need notes because this is an industry I know extremely well. What about Canada; how do we do? On my own level, I change the way I do things into these start-ups and these so-called affiliated programs. I take advantage of a global market, going after individual verticals and filling out the solution levels. It's insatiable because there are so many different industry verticals to address. I keep doing it at the rate of about five a year.

I'm just starting up a company from Memorial University in Newfoundland. About three months ago, I started up a company from New Brunswick. I'm just about to start another company in Victoria, at the University of Victoria. So I'm very active across the country. Next year I'm about to start a program in Alberta, start up some Alberta companies, and spread it across the nation. We have the best graduates that I've ever worked with. I know because I hire new graduates all around the world.

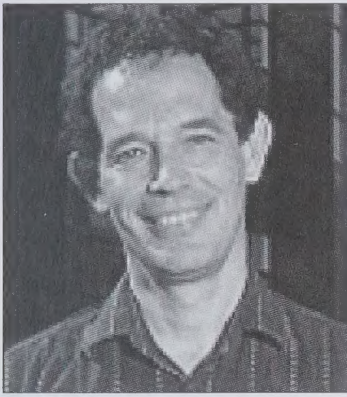
What about the Toronto area? This is our financial capital. You need to be aware of what's going on. It isn't just

Nortel. I'm sorry about the loss of the \$12 billion. It's gone. The flagship's down. I find that a flagship has to be about \$1 billion a year. Mitel is just about there. If you don't do about \$1 billion a year, you cannot have offices in Sydney and Singapore and Rome and Paris and Shanghai. It just doesn't equate. You have to have sales of at least \$1 billion a year to become a global company. Anything less than that is sub-optimal. It just doesn't equate.

In my career, I've started up a few companies over \$1 billion and there's some on their way. There are a whole host of start-ups where people are enthusiastic, and working very, very hard. I guess something I can do for the community myself is to make sure that the visibility of these smaller companies is there, because the biggest return for any investor comes if you're in early and if the company's successful.

That's my pitch. Anybody want to ask any questions about the Canadian government? Anybody want to ask any questions about Nortel? Anybody want to ask questions about the Ontario government or about the industry generally? I'm happy to answer. I've got my own views, happy to talk about it.

The appreciation of the meeting was expressed by Neil Selfe, Director, The Empire Club of Canada, and Managing Director, Investment Banking, GMP Securities.



October 8, 2009

Dr. Neil Turok

Executive Director, Perimeter Institute, and Former
Chair, Mathematical Physics, Cambridge University

WHY BASIC RESEARCH AND INNOVATION ARE CRUCIAL FOR THE ECONOMY OF THE 21ST CENTURY

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Kamal Hassan, Director, The Empire Club of Canada, and CEO, Skymeter Corporation; Courtney Pratt, CEO, Toronto Regional Research Alliance; John Koopman, Past President, The Empire Club of Canada, and Consultant, SpencerStuart; Ken Cork, President, Sentinel Associates; Michael Clarke, Reverend, Christ Church, Brampton; Shakila Ebrahimi, Grade 12 Student, Eastern Commerce Collegiate Institute; and Heather Ferguson, Director, The Empire Club of Canada, and President, The Hearing Foundation of Canada.

Introduction by John Koopman

Neil Turok

Thank you very much for welcoming me, John. I've been learning about the interesting history of the Empire Club.

I can assure you, I have come from a small island somewhere off Europe, but I've not come to re-impose the Empire. I've come to talk about something of the future rather than the past. The first five letters of Perimeter are the same, but they've been rearranged. I'm going to tell you about Perimeter and maybe you want to think about renaming your club accordingly.

I came to Canada just a year ago. I'm a one-year-old Canadian, I guess, by that definition. The first thing I want to say is what an incredible country you have. You don't seem to me to appreciate how lucky you are. I certainly do. This country, from a physics point of view, has space, huge amounts of space. You have energy, but I think above all you have an open and welcoming culture, which I think is one of your greatest assets and will put you in very good shape to be a major force for the future. For example, the G8 and the G20 summits will be here in Canada next year. I think Canada is going to play an increasing role on the world stage as a leader in all kinds of endeavours.

I'm going to talk to you today about the Perimeter Institute, which I have been very fortunate to become involved in, but I want to begin by setting the scene with a small story from history, which I hope will convey something of the importance and the goals of Perimeter.

Let's go back to a century ago, 1905, in New York, where there were huge buildings being thrown up. This was obviously a world-leading centre, but if you go back and read the newspapers at that time and ask what were their concerns, what was the big issue for New Yorkers, it was this. It was manure because the problem was that the technology of transport had not kept up with the technology of building. The only transport available was horse-drawn carriages and carts. The streets were full of manure.

By the way, I have stolen this story from Mike Lazaridis who, in fact, is the best exponent of basic science I have

ever encountered. I'll come back to him later, but this is his story.

The streets were full of manure and this was a horrible health hazard. There was disease and contamination everywhere. Everybody was very concerned about this. It seemed like the major threat facing the planet. Simultaneously, there was a young gentleman working away in a patent office in Geneva or Zurich, I think, who was not worried about manure at all. He was worried about the vacuum. He was worried about empty space. I'll say something more about that later too, but in particular, he was worried about how light travelled through empty space. You might say that this was irrelevant. Why was somebody worrying about that purely theoretical issue when the planet was facing all kinds of challenges—war and revolution and all that? Why was he bothering to worry about this?

Let's fast forward to the future and ask whether we are still worried about manure on the streets. Do we even know how that problem was solved? Well, somebody solved it. It was important to solve it, but Einstein's discoveries laid the foundation for everything we use today. In particular, as you know, he discovered the theory of relativity, of Brownian motion; he was one of the founders of quantum theory. In 1917, he discovered a theoretical mechanism for stimulated emission of light from atoms. This then took until 1947 for somebody to test it experimentally—Willis Lamb, who won the Nobel Prize. In 1960 it was turned into the first laser. As you know, lasers are the basis of a huge amount of modern technology, including CDs and DVDs. They work entirely with lasers and fibre optics, for which somebody was just awarded the Nobel Prize this week.

It takes time for these discoveries to feed into technology and industry, but they are the foundation of everything we use today. That's important to appreciate. Likewise, the silicon chip is a result of discoveries made

in condensed matter physics. The basis for that was laid by Paul Dirac, again, working in a very academic environment and worrying about how he could write down an equation, which was consistent with quantum mechanics and Einstein's principle of relativity. What he came up with is the Dirac equation and that is the foundation of our understanding of the way electrons behave today and likewise nuclear magnetic resonance (NMR) and a thousand other technologies.

This is the perspective we have at the Perimeter Institute. It took a very smart person to see this. Mike Lazaridis is not only a very smart technologist and entrepreneur, but he's a very smart philanthropist. Mike stood back and said, "I've made a lot of money. How do I invest this in science?" He loves science. "How do I invest it in the most cost-effective way? I want the highest return on my investment."

Let's look at all of science and see which field in history has given the highest return on investment. You don't need to think. Once you've asked the question, it's totally obvious what the answer is because where would we be without Isaac Newton, who understood how mechanics worked and laid the basis for engineering? Maxwell, who understood light and electromagnetic waves, laid the basis for all of modern communication, electricity and so on. If you take the long-term view, the answer is completely obvious. One has to invest in basic science at the very highest level if you want the biggest return for your investment.

Mike persuaded the Ontario government, the federal government, the Canada Foundation for Innovation and others to match his contribution and so set up a public/private partnership around a theme of fundamental theoretical physics, the most basic science. This was remarkable foresight. It's unprecedented in history. Going back to the ancient Greeks, no one has invested in funda-

mental science on this scale. It's a really exciting global opportunity. That's how it's seen within the field.

Mike hired a very able young person, Howard Burton, and together they designed the Perimeter Institute in Waterloo, which I must admit until about three years ago I had never even heard of. They designed this institute and set it up in Waterloo. I heard rumours about this institute. I heard that somebody had challenged physicists to solve the problem of quantum gravity and he'd given them \$100 million and said, "Do it in 10 years." That's what I heard in Cambridge. That was the rumour. I thought it was ridiculous and how on earth could they do anything in the middle of Canada anyway. So I paid no attention to it until about just over two years ago. I was invited to be on the Advisory Board of Perimeter and began to learn more about it. Frankly, I was amazed. I was trying to create a Stephen Hawking institute in Cambridge and couldn't get anywhere. The government was not interested and donors were not interested either. Suddenly this thing appears and it's exactly what we had in mind, but they'd already done it.

I came to visit Perimeter. This photo was actually taken with my BlackBerry, about half an hour after I was given one, from the apartment patio outside. I took this photo of the institute. It was snowing, but that's the only clue I'll give you. These rays were not visible to the eye, but they appeared on the photo. For me, that was a bit of a signal. I'll leave it to you as a physics problem to figure out what caused the rays. You can come and ask me afterwards. It took me a while to figure it out. So that's the Perimeter Institute. It's basically a beacon of the future of basic research and so on.

I've got to put an equation in here; this is a physics talk. If I've only got one equation, I'll give you the most important equation. This equation describes all known physics. It's true. It has everything in there. There is not a single physical phenomenon we know of that's not

included in this equation. When you go into the Perimeter Institute, this is the kind of thing you'll find. You'll find people scribbling in Greek letters on blackboards—the institute is full of blackboards—worried about whether these equations are consistent and can we improve on them. This is a very powerful equation. It's the most powerful equation anybody's ever thought of and you'll see all these famous names attached to it. Schrödinger figured out that everything's described by a wave function. Feynman showed it could be computed from an integral plank. Einstein, Newton... Newton survives only with one constant in this equation, poor Newton. Dirac I've mentioned before. Kobayashi and Moskawa got the Nobel Prize last year and this is the Higgs, which is the ambition of the greatest experiment ever conducted, the Large Hadron Collider.

This really summarizes everything we know about physics. What we do at Perimeter is try to better understand this formula and to improve on it. It's no easy task. We're improving on the work of all these amazing people.

When Perimeter was set up, I think partly out of naïveté and straightforwardness, the founders picked an extremely ambitious scientific focus. It has a twin focus on quantum theory, which is the theory governing all the laws of physics, and space time, which is the arena for physics. In their naïveté, they actually said again, "Let's just focus on the pinnacle. The other stuff all relates to what's at the pinnacle of physics. Let's build the other fields around this pinnacle."

Regarding quantum theory, I'm showing here a picture of the vacuum. Only last year people were able to simulate on computers the full structure of the vacuum. That is empty space. That's what empty space looks like, by the way. People managed to do powerful calculations of the vacuum. These calculations compute from first principles the mass of the proton and the neutron and the other nuclear particles because that mass is determined by the

structure of the vacuum, which surrounds them. The blobs you see fluctuating around in the vacuum are the gluons, which are virtual quantum gluons, which fill the vacuum.

The other focus of Perimeter is the arena for physics or space time and that involves Einstein's theory of general relativity. It governs the expansion of the universe. It governs the structure of stars and what happens when black holes form. Perimeter chose this focus of quantum theory and space time 10 years ago. Since that time, this has proven to be a very inspired focus.

Quantum theory was invented about 80 years ago or 90 years ago, but it is such a bizarre theory. It basically tells us that the world we're aware of is not the real world. The real world is far more bizarre. The real world actually has things going on in it simultaneously which we think of as being incompatible. A particle can be here and it's also there at the same time. It is a very bizarre theory. It's also easily the most accurate theory anyone's invented. It predicts quantities to 14 decimal places. You can calculate the properties of an electron to 14 decimal places from first principles, so it's almost certainly correct, but it's a very strange theory. It's taken people a long time to appreciate the strange features and how they may be used.

One of the research programs pursued by Perimeter from the beginning was quantum information, which will, we believe, lay the foundation for the computers of the future. They won't be classical computers using 0s and 1s; they will be quantum computers in which a bit can simultaneously be 0 and 1 at the same time. When you do your calculations on the computer, it can do an uncountable number of calculations simultaneously. That will be the basis of unbreakable security codes, which will, in the future, be very important for the Internet, for banking and so on. From Perimeter has spun off the Institute for Quantum Computing, which is the leading centre in the

world for trying to actually build a quantum computer, which is also in Waterloo. So that's one example.

Another example. Just earlier this week we were having a series of lectures at Perimeter about new discoveries called topological insulators. This is a theoretical set of materials, which are insulators and very boring. An insulator doesn't conduct any electricity, but on its surface, all kinds of bizarre phenomena can happen. This is the basis for a new theory of materials, which very likely will prove to be very important, partly for quantum computing and for other electronic gadgets and devices. So theory really does pay off. It has done so handsomely in the past and it will in the future.

Another thing I want to emphasize is that theory is the driver behind big science. I've already mentioned the Large Hadron Collider. The other big science projects of the future, for example, will include satellites in space, which will be trying to detect gravitational waves coming from black hole collisions or even from the Big Bang itself. Using gravitational waves, we can actually look right back to the Big Bang and see for ourselves what happened there. This will happen in coming decades. Science fiction is actually turning into real science. Theory drives these things. You can't even design these experiments or what they might measure without a lot of theory. Canada is a relatively small country, but if it wants to invest in science, investing in the foundational subjects, which drive the big science international projects, makes a lot of sense, but I would say that, wouldn't I?

Since I've come to Perimeter, the established fields consist of quantum theory and general relativity. These are the foundational fields of the institute. We're now adding particle physics, condensed matter, cosmology, that's physics on small, medium and large scales, and combining them into a whole, which is greater than the sum of its parts because you need insights, obviously,

from the real world to help guide your theory and to test it in experiments.

That's our picture. This is called the pizza diagram within the institute. Basically, it shows the fields we are building up. The most important things are the connections across this diagram, indicating that all of these fields relate. People who are studying condensed matter, which is solid-state physics, are now using, amazingly, insights from quantum gravity, Einstein's theory of relativity and quantum theory to understand the property of these new materials. Physics is one subject. Forming an interdisciplinary whole is your best chance of genuine new breakthroughs.

I can't help mentioning this wonderful person, Willard Boyle, who's Canadian, who was home-schooled and then went to McGill. He's just won the Nobel Prize. I think it was on Monday. He has this wonderful quote. He won his prize for the work he did at Bell Labs, which in a way is like Perimeter. It is a research institution, a very famous one, which has seven Nobel Prizes in its history, including the transistor and the discovery of the cosmic microwave background radiation. Across the full spectrum of science, these discoveries were made. Again, I want to convey to you that science, especially physics, is one field. You can't really separate applications from the bigger picture.

In his case, he discovered charge-coupled devices, which are now used in digital cameras. If you've ever used a digital camera, you're using one of his gadgets. It was developed by astronomers, because the people who really needed the most sensitive photon detectors were astronomers. They were also at Bell Labs. They pushed the development of this technology. When it became mature in telescopes is when it started to roll out in companies in digital cameras. Now it's a huge industry.

I want to quote from Boyle. There was an article in the newspaper yesterday about bureaucratic control of sci-

ence. He said, "What is needed is an appreciation of the free world, free spirit of scientists. Give them a chance to do the things they want to do. Don't tell them to solve this problem or that problem. Just let them loose and they will work their socks off to make progress."

At Perimeter, the key is we have a flow-through of talent. We have faculty. We have post-docs, the largest group of post-docs in the world now in theoretical physics. We have hundreds of visitors coming through the institute every year. We just launched a very innovative graduate program called Perimeter Scholars International, which aims to be the best Master's level program in theoretical physics in the world. It just started in August. We have an amazing group of students from all over the world there. We have appointed Distinguished Research Chairs, who are visiting scientists of the very highest calibre. Last week, two out of our 10 Distinguished Research Chairs were among the top candidates for the Nobel prize—Aharonov, who was at Perimeter last week and Cirac, who's there now for three weeks. We had our own wishes. I was sorry the winner wasn't one of those two. We appointed 10 last year. We will be announcing a new round of these appointments at our festival in two weeks' time, 10 days' time.

We believe in outreach. Perimeter has a very innovative outreach program. We put all our lectures online. We have public lectures. We do outreach to schools. We very much believe in encouraging young people to be interested in science. Here are all the prospective young Einsteins wearing their masks. We want Perimeter to be a global hub, so we put all our lectures on the Web. Everything at Perimeter is put on the Web straight away. You can watch all our lectures on Perimeter Scholars International, if you want. We have partnerships with institutions around the world. We support emerging centres.

It has been mentioned that one of my passions is to enable new centres for science to emerge in the developing world. Perimeter is taking that on as a component of its outreach program. In particular, Perimeter is helping to develop a plan for a set of institutes across Africa, which will promote high-level skills in mathematics and physics across the continent. We want Perimeter to be an example to other countries. For us it's very important we have such centres. It's very important that young people around the world, especially the brilliant, talented young people, have access to centres like this so they can get into science as quickly as possible.

Again, to quote from Mike Lazaridis, "No country has a monopoly on genius." I firmly believe that among Africa's nearly one billion people, there are people of enormous talent and ability. Part of the solution to Africa's problems will be enabling them to emerge. The slogan of our campaign is that we want to help create the conditions in which the next Einstein could be an African.

Finally I want to talk about what is Perimeter. We were described in an article in the *New Scientist* as "What may be the most ambitious intellectual experiment on earth." It's very sobering, it's very complimentary, but we do feel this huge weight of responsibility. Don't worry; we will do our best to live up to it. It is an experiment. We have the freedom to play with it and improve it, but we have enormous ambition. We have enormous energy. I think amazing things will happen.

Some of you may know the picture called the "School of Athens" by Raphael, the artist. What are we about? We're trying to create conditions like those in ancient Greece, which saw the flowering of ideas because people looked at the world with fresh eyes, with intellectual rigour, with mathematics. The picture shows Pythagoras and Anaximander, the first mathematician and theoretical physicist, engaging in debate. Out of that academic activity came everything, all the technologies in the modern

world. At Perimeter, we are trying to do the same for the future. If you are interested and if you enjoy this stuff, I want to invite you to participate in the Quantum to Cosmos Festival, which is October 15–25. Everything will be online live, unlike this talk. It will actually be live. You will see around 50 talks and events, which describe the fascination and the importance of science for our future.

Thank you very much.

The appreciation of the meeting was expressed by Kamal Hassan, Director, The Empire Club of Canada, and CEO, Skymeter Corporation.



Ed Badovinac, Director, The Empire Club Foundation, Dr. Neil Turok, Executive Director, Perimeter Institute, and John Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada.



October 15, 2009

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

Darrell Dexter

Premier of Nova Scotia and First NDP Premier in
Atlantic Canada

HELPING CANADA SUCCEED IN THE 21ST CENTURY: WHAT ROLE WILL NOVA SCOTIA PLAY?

Chairman: **Alfred Apps**
Club of Canada

President, The Empire

Head Table Guests

John Koopman, Director, The Empire Club of Canada, and Partner, Spencer Stuart; Greg Wong, Director, The Canadian Club of Toronto, and CFO, Gulf and Pacific Equities Corp.; Rev. Dr. Andrew Sterling, Senior Minister, Timothy Eaton Memorial Church; Steven Lund, President and CEO, Nova Scotia Business Inc.; John Capobianco, President, The Canadian Club of Toronto, and Senior Vice-President, Corporate, Financial and Public Affairs, Edelman Canada; Howard Brown, Director, The Canadian Club of Toronto, and President, Brown & Cohen Communications & Public Affairs Inc.; Tom Ruth, President, International Airport Authority; and Vivian Prokop, Director, The Empire Club of Canada, and CEO, Canadian Youth Business Foundation.

Introduction by Alfred Apps

Darrell Dexter

Thank you for that kind introduction, and for the invitation to join you today.

It seems natural for me to address the topic of this series: Helping Canada Succeed in the 21st Century.

Nova Scotia is one of Canada's four founding provinces. And I believe that Nova Scotia has been a nation-building province. So I will be glad to discuss what Nova Scotia can contribute to Canada's success.

But first, some of you must have asked yourself: "What happened to good old Nova Scotia—a place that could more or less be taken for granted?"

You may even be wondering if Nova Scotians were just as surprised as many of you, when our province elected Atlantic Canada's first NDP government about four months ago.

The answer is that very few people in Nova Scotia were surprised by the NDP win.

From a distance, it might appear that Nova Scotians tend to be Progressive Conservatives. The reality is that Nova Scotians are more like conservative progressives. Open to new ideas, open to progress, but careful and cautious about each step forward.

Nova Scotians took time to be sure that they knew me and my party before electing a majority government for the first time in 10 years.

The NDP plan highlighted a pledge to live within our means. Nova Scotians understood that promise and my government's commitment to keep that promise.

As Leader of the Opposition, one of my goals was to meet Nova Scotia business leaders and gain their views and advice about the provincial economy and the business climate. I learned a great deal from those meetings.

But I also wanted the people who lead and own major businesses to know me well enough so that today, when I am premier, they feel free to pick up the phone and call

my office when they see an opportunity or challenge of mutual interest.

Growing the bottom line for our province requires a positive business climate. Although no government can control the economy, I recognize that part of my job as premier is to ensure a solid, business-like approach to the opportunities for investment in Nova Scotia.

Nova Scotia and beyond

In the 21st century, success can no longer be defined within the borders of one country, or one province.

Whether it is climate change, or capital markets, Canada and each province and territory are dealing with global challenges that require both a global and a local response to ensure success.

For example, the four Atlantic provinces are more attractive as an aggregated market of 2.3 million people than as four small jurisdictions competing mainly with each other.

My definition of success for Nova Scotia includes the on-going development of Saint John, New Brunswick, as a major energy hub for northeastern North America, the harnessing of Lower Churchill hydroelectricity for Newfoundland and Labrador, the Maritimes and New England, and PEI's pioneering development of wind power.

Since I became Leader of the Opposition in 2001, I have spent as much time in Washington, DC, as I have in Ottawa, because I wanted to help in the many decisions that directly affect trade and investment for Nova Scotia and the rest of Canada. Those decisions are often made by our greatest friend and closest neighbour.

Until I became premier, I was a member of the executive of the Council of State Governments—Eastern Regional Conference. Through the Council of State Governments, legislators from both sides of the border

have worked to minimize the restrictions on trade and travel in the Western Hemisphere Travel Initiative.

A story I like to tell is about a meeting we had with Homeland Security at its headquarters in Virginia.

The presentation was done by a woman whose last name was Fralick. I observed that it is a fairly common name in Nova Scotia.

“Oh,” she said, “my grandparents were from Nova Scotia. They came from a little community you wouldn’t know. It’s called Beach Meadow.”

“Well I said, my grandparents were Fralicks, and they were from Beach Meadow. You and I are undoubtedly second or third cousins.”

I tell that story to show how true it is that we are all one people, even though a border may separate us. And I sometimes tell it to remind audiences that when the U.S. Congress adopts a Buy America rule restricting access for Canadian goods, it is their own country that they are hurting the most.

Seven million American jobs depend on trade with Canada. The supply chain for many products—most notably for cars, vans and trucks—crosses the border many times.

The head of one of the largest U.S. unions is Leo Gerard, a Canadian steel worker who knows both countries well.

Our two countries depend on each other, just as the four Atlantic Canadian provinces benefit from each other’s success.

For example, from Memphis to Chicago, throughout the U.S. Midwest and much of Canada, Nova Scotia provides the fastest and best value gateway to ship freight in and out of North America.

My government will work with our gateway partners to find that best-value route for new customers, just as we did with Canadian Tire.

When I met Governor Douglas of Vermont, chair of the National Governors Conference, I learned that he appreciates the value to Vermonters of reciprocity in the purchase of goods by state, provincial and local governments.

Well beyond the border, southern governors have also told me that their states and their people also do better when they can buy the best product for the money, without a legislative wall between Canada and the U.S. that delays and confounds their own state purchasing.

Like other premiers, I fully support Prime Minister Harper's leadership in addressing this concern.

Two steps to help Canada succeed

Nova Scotia is taking two specific steps to contribute to Canada's success in North America.

First, Nova Scotia proposed and is now coordinating the effort by all 10 premiers to increase the Canadian presence in the U.S., and foster one-to-one relationships with governors and other key U.S. decision makers.

Next February, when the eyes of much of the world will be on Canada for the Olympic Games, the premiers will meet in Washington during the semi-annual conference of the National Governors Association to further boost that understanding of what we share, and how much we can win through cooperation.

My government sees that meeting as part of a larger process because the decisions made by so-called sub-national governments, including the 50 states of the Union, our 10 provinces and three territories are now recognized as an important part of the international picture.

For example, sub-national governments are part of the negotiation of the next UN agreement on climate change and part of the European Union trade negotiations.

As premier of Nova Scotia, I will go to the Copenhagen conference that has been planned for the conclusion of those important negotiations. I am going as part of

Canada's team, but aware that my province will be asked to take action to achieve the world's next climate change goals.

My government is accelerating Nova Scotia's steps to achieve stable, predictable power costs through renewable energy and energy conservation.

Nova Scotia has enacted Canada's first hard caps on greenhouse gas emissions from the electricity sector. Nova Scotia has joined private partners and the federal government to test new ways to tap the tidal energy in the Bay of Fundy, one of the world's greatest sources of new, predictable and renewable energy. This may be the single most important development in shaping Canada's energy future. The only tidal power plant in North America, one of just three in the world, is in Nova Scotia.

This fall, the first in-stream tidal turbine to be tested in the Bay of Fundy goes into the water. It is part of a two-year test of conditions in a body of water with the highest and most powerful tides on earth.

These are all steps to help Nova Scotia businesses and families get off the rollercoaster price swings in the market for fossil fuels.

These steps meet North American green energy goals and position Nova Scotia exporters to meet the challenge of trade restrictions based on carbon content.

These steps open up investment opportunities, and help Canada succeed by concentrating on what it will take for Nova Scotia to succeed.

A partner when investments make sense

Now, speaking in Canada's financial capital, I want to highlight one of the most important ways that Nova Scotia helps Canada succeed—and that is by earning our way, by every means available.

The new government of Nova Scotia faces significant financial challenges, not just because of the recession, but also because long-term spending commitments were

made without the revenue to pay for them. It is an unsustainable path. A panel of top economic advisors will soon report on the options for a better direction. The province will have tough decisions to make as we set out to balance the books and live within our means without undue disruption.

Business success, creating profit for investors, jobs and income in Nova Scotia, is the single best way for the province to place itself on a sustainable economic and fiscal path.

Well before the recession, I heard directly from executives who had successfully won important private sector investments in Nova Scotia. These investments helped secure the future of world-class industries, like Michelin, that have won major markets with the quality of their products and services.

I know that a province should not use subsidies to try and gain an investment that otherwise makes little sense. Someone with a long history in financial services said that when it comes to business development, bad money can chase out good money.

I also know that when a skilled management team is competing for scarce investment dollars, provincial support and support from the premier's office can make the difference.

I want Nova Scotia to help those of you in business to make money from plans that already have the basics needed to attract good money and secure investments that make sense.

Lockheed is one great example—a company that “kicked the tires” and found in Nova Scotia what it needs for growth and success in Canada. Lockheed opened its brand-new Atlantic headquarters this summer.

In April, our business development agency, Nova Scotia Business Inc. (NSBI), announced funding to support Lockheed Martin's growth for creating up to 100 new jobs. With these new jobs, Lockheed Martin employees

will be responsible for the mid-life modernization program of the Canadian Patrol Frigate.

NSBI worked closely with the company to make sure that this work took place in Nova Scotia and not elsewhere. NSBI knew that Nova Scotia had to be in front of Lockheed.

Lockheed needs skilled people; we have them. Nova Scotia has Canada's highest proportion of post-secondary graduates. Lockheed needs a business-minded, cost-competitive location; that's Nova Scotia. Lockheed now has a new facility in Dartmouth, employing highly educated and skilled Nova Scotians.

We're both winners as a result.

Just yesterday, I met with Mr. Jim Balsillie of RIM. Nova Scotia, under the leadership of former Premier, John Hamm, went after RIM. We knew the company was looking to grow and RIM wasn't restricting itself to where it might grow. Nova Scotia made the case that we were the right solution, the competitive solution, and a Canadian solution for RIM. Now, RIM employs 497 people in Nova Scotia.

Nova Scotians are also partnering with international businesses like Google to grow their business.

With us today as a guest is Pat Spears, Channel Manager with Google North America.

Google's Nova Scotia partner is here, too, SheepDog Inc.

This is truly a story about entrepreneurial grit. SheepDog was started from a simple idea. Shawn Wilkie from Antigonish, Nova Scotia, heads SheepDog. And his computer business kept him busy with customers struggling with spam and virus problems.

Google didn't know it yet, but they were going to want to partner with Shawn, just as much as he wanted to partner with them.

Shawn saw a business opportunity for Google's gmail and other applications. They were already targeting small

business. But Shawn believed big business was a ripe market for Google's applications. So, he picked up the phone, although it was not simply that easy. He used the product support phone number. He left message after message and he kept at it. Then someone called back. That was a year ago. Now, SheepDog is the only Google Applications authorized reseller in Canada and one of only 30 worldwide.

Just this morning, I'm pleased to say Nova Scotia, through our team at Nova Scotia Business Inc., announced an investment so SheepDog can increase its staff to meet growing demand over the next five years.

I'm proud to support SheepDog and a young, aggressive 27-year-old Nova Scotian entrepreneur like Shawn.

And there are many other innovative entrepreneurs and leaders in Nova Scotia.

Membertou First Nation Chief Terry Paul, who is also with us today, has been recognized nationally and internationally for his community and business development efforts. He has fostered a vision of community development and self-reliance through strong private-sector partnerships and an unrelenting commitment to make things better in his community, while helping to contribute to growth and prosperity in Nova Scotia.

SheepDog, Membertou First Nation, and Lockheed Martin are making a positive difference for Nova Scotia and for Canada in this century. They are helping to attract and retain the brightest and best.

The people that have made the decision to come to Nova Scotia recognized what I have known for a long time. Nova Scotia has it all.

I want to thank you for the opportunity to be here today to share with you these ideas about how Nova Scotia can help Canada succeed in the 21st century.

This was just a taste of how Nova Scotia can build Canadian success.

My government recognizes the important role that each and every province and territory plays in building a successful and strong nation.

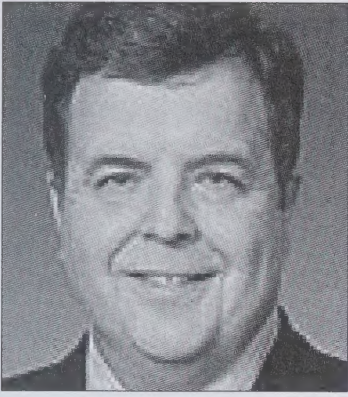
Over the next four years, I will embrace new opportunities. I will meet with CEOs and business leaders from across the world. I will be open to your ideas about how to improve the economy and attract business. And most importantly, I will actively recruit businesses willing to come to Nova Scotia to access a highly educated and dedicated work force, to experience an exceptional quality of life, and to work with a government that sees itself as a partner with businesses in Nova Scotia.

As premier, I am both energized and enthused about the relationships we will forge from here on in.

What we do today, how we respond to these times of dramatic change and challenge and how we capitalize on the opportunities before us will determine Nova Scotia's success, and thus Canada's success, in the 21st century.

Thank you.

The appreciation of the meeting was expressed by John Capobianco, President, The Canadian Club of Toronto, and Senior Vice-President, Corporate, Financial and Public Affairs, Edelman Canada.



October 20, 2009

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

The Hon. Dwight Duncan

Minister of Finance, Government of Ontario

THE GLOBAL RECESSION AND ITS IMPACT ON ONTARIO'S ECONOMY AND FINANCES

Chairman: Nicholas Chambers
President-Elect, The Canadian Club of
Canada

Head Table Guests

Johnnie-Mike Irving, Managing Director, TELUS Business Solutions East and Managing Director, Public Sector Sales East; Alfred Apps, President, The Empire Club of Canada, Partner, Fasken Martineau, and President, Liberal Party of Canada; Allan O'Dette, Past President, The Canadian Club of Toronto, and Director, External Relations (Ontario) and National Private Markets, GlaxoSmithKline Inc.; Peter Wallace, Deputy Minister of Finance, Province of Ontario; Chris Koddermann, Director, Government Relations, TELUS; Jenny Coco, CEO, Coco Paving Inc.; Wayne Arthurs, MPP, Pickering-Scarborough East, and Parliamentary Assistant to the Minister of Finance; and Bill F. White, Director, The Empire Club of Canada, and President, IBK Capital Corp.

Introduction by Alfred Apps

Dwight Duncan

Good morning and thank you for that kind introduction.

In the last year, the world has seen an unprecedented global economic downturn that has had a significant impact on almost every nation in the world.

A complete collapse of the U.S. and world banking systems was narrowly avoided.

We saw former auto powerhouses, GM and Chrysler, restructure through bankruptcy. Without investments of almost \$80 billion from the U.S., Canada and Ontario, these two major employers would have gone under.

Great Britain—all of Europe—and of course, the U.S. were forced to confront very serious impacts on their economies.

Canada, Ontario and our sister provinces were not immune.

Governments all over the world were urged by the IMF and the OECD to put together major economic stimulus packages to help avoid an even deeper recession. As a result, almost every jurisdiction is now facing higher debt and deficits.

In Ontario, we too are facing very serious challenges and I am confident we will rise to the occasion. Being upfront during a crisis, I think, is critically important. One of the most important roles for any finance minister is to inform people about the state of the government's finances. As Thomas Jefferson once said, "Whenever the people are well-informed, they can be trusted with their own government."

Later this week, I will be presenting our most recent economic outlook for Ontario and an updated review of our fiscal position. Today, I want to talk to you about what we are facing, as a government and as a province, and how we are dealing with the impact of the global economic downturn.

In the past year, the recession has had a significant impact on the global economy on a scale that was unforeseen by anyone. Many jurisdictions are facing sharp declines in revenues and increasing expenses as people turn to governments for support. The significant deterioration of the global economy and the tightening of credit undermined business and consumer confidence.

Ontario is not immune to these broader forces: jobs have been lost, businesses have closed and government revenues have declined dramatically. We are beginning to see signs that the economy is turning around.

Financial markets are seeing some improved results. Consumer confidence is improved. Spending is up and we are seeing better results in the housing market. The International Monetary Fund last week raised its projection for global economic growth next year to 3.1 per cent from an earlier estimate of 2.5 per cent.

While they offer some hope, they don't mean much when you are looking for a job. We are not out of the woods yet and before we see a full return to strong growth, there is much hard work to be done.

Risks to recovery remain. We are very dependent in Ontario on a U.S. recovery. The speed of its bounce back will have a big impact on Ontario businesses.

We remain vulnerable to risks like a high Canadian dollar, high oil prices and rapidly rising interest rates.

Remember, it's only been two months since we've seen signs of positive economic growth. We need much longer than that before we can state definitively that the recession is done. We could very well be in for a long, slow grind before we achieve true economic recovery.

We also know that growth in jobs and government revenue will lag growth in the economy. We need to make sure the recovery has established a beachhead before flying the victory flag.

Ontario, like so many other jurisdictions, experienced an enormous downturn in government revenues, particularly in the past year.

Canada, Alberta, British Columbia, the United States, Great Britain—among many others—have faced similar circumstances. We have all had to deal with the impact of the global financial situation and the global recession.

The International Monetary Fund (IMF) said in July that “...debt ratios in advanced G-20 countries are projected to widen by about 40 percentage points of GDP by 2014, an increase not seen since the Second World War.”

Our own federal government, and this is not a criticism, has posted a significant deficit—one they had not foreseen just a year ago.

Several Canadian provinces are now forecasting a deficit, where less than a year ago they were enjoying surpluses.

The U.S. is facing a deficit of almost \$1.5 trillion—over 10 per cent of the nation’s GDP. Some economists say that the U.S. is going to need to put forward a second major stimulus package, rendering the deficit even higher.

In Ontario, as we reported in Public Accounts, corporate tax revenues fell in one year by an unprecedented 48.1 percent—more than \$6 billion.

At the same time, during a recessionary period, the demand for government services rises. For instance, more people qualify for social assistance and more people need skills training. During a downturn, people rely more heavily on public services.

Other jurisdictions face these challenges just as we do, though in Ontario, this year, we had the added impact of the auto sector. The auto industry in Ontario employs hundreds of thousands of people directly and indirectly. Ontario builds more cars than any other state or province in North America.

Because of this, the McGuinty government made a necessary investment: we invested \$4 billion to keep people

working all over Ontario and maintain our leadership in the sector—not just in the manufacturing business, but in auto parts, at auto dealers, and in auto repair. We chose to save thousands of jobs, to save entire communities from financial failure, and to lend shape to a much leaner and much more competitive sector.

Those were the right investments at the right time. We put our dollars where the IMF recommended, where the OECD advised—and at the levels they both recommended. More importantly, we put our dollars in line with the needs of the people of Ontario. Those investments were the right thing to do and they came with a cost.

Frankly, Ontario was hit earlier and hit harder by the global economic downturn than other parts of Canada. We are also more influenced by events in the U.S. economy due to the size of our trade and proximity to their markets.

A lot of people forget that our export-oriented manufacturing and forestry sectors were dealing with the high value of the dollar and high prices for oil when some other provinces were still enjoying record commodity royalties.

Ontario's economy has borne a significant impact from this recession. I'll be talking more about the economy in my fall statement later this week. Like many other jurisdictions, we are grappling with a significant deficit. Our deficit will be consistent with the size of the Ontario economy, relative to the Canadian economy. It will not be out of line with comparable jurisdictions.

In the budget to be presented next spring, we will outline our plan to return to balanced budgets and sustain the vital public services that are an integral part of our economic competitiveness.

Ontario, like most jurisdictions, won't turn around in a year. Based on current forecasts, it will be 2011 before our economy gets back to where it was at the beginning of 2008.

■ Governments around the world and in Canada must confront the reality that there are no miracle fixes or instant solutions to the fiscal challenges that have been brought about by the current economic situation. To put this in perspective, our GDP is now the size it was in 2005. Our government revenues are also now back to 2005 levels.

From this position, even with moderate GDP growth, it will take some time before we can declare victory over the fiscal challenge. For Ontario, for Canada, for many other provinces and for most other G-20 nations, that will mean several years of deficit budgets.

The challenge of sustaining public services while returning to a firmer fiscal footing is one that we cannot ignore. This is a challenge that all Ontarians must confront together. Our government, working with all Ontarians, is ready to meet this challenge. To be able to continue investing in key priorities while managing down the deficit, we must focus our priorities and make strategic and sometimes difficult choices. In the coming months, the government will undertake a review of service delivery so that every dollar is spent more effectively.

I'd like to spend a few minutes talking about what we've been doing to help mitigate the impact of the downturn on Ontario families and how we've been positioning Ontario for long-term growth.

Ontario, like most jurisdictions, has invested in a stimulus package focused on job creation and retention, infrastructure and skills training. It was the right thing to do at the time of the budget and it remains the right thing to do today. For decades, infrastructure in North America and Europe had failed to keep up with growing populations and community needs.

The evidence of the value of investing in infrastructure is clear. It creates short-term jobs and an immediate boost to local communities.

It's much more than bridges and roads—as important as they are. It's also about schools, colleges and universities. It's about hospitals and long-term care facilities. It's about water and electricity. And, of course, it's about roads too. If you drive down the QEW or up the 404, you'll see those dollars at work today.

In the long-term, infrastructure investments help position the province for sustained economic growth.

I had the opportunity to hear noted economist Paul Krugman when he was in Waterloo just a few weeks ago. He makes the point, and I quite agree with him on this, that stimulus is also about the broader public sector.

When people are working in hospitals, in schools, in colleges and universities, or when people are running cities and transport systems, they are also paying mortgages, buying groceries and generally keeping the economy rolling. To get out of the current crisis, we need business spending and we need people spending.

As an elected representative, I know there's more to it than that. A recession can have long-term impacts on people's lives. Family members lose their jobs and livelihood. Seniors worry about the adequacy of their retirement income.

That's why our government has spent and continues to spend money on education, on poverty reduction strategies and on skills training. We took the best advice of the world's leading economists and pursued the right course of action.

To position Ontario for growth once this recession is over, we introduced a comprehensive tax package including the Harmonized Sales Tax (HST) along with a series of tax cuts. While moving to a single value-added sales tax is new to many, Ontario would be joining more than 130 countries around the world and four of our sister provinces. The HST would permanently and significantly reduce taxes for large and small enterprises across the province.

At the same time, Ontarians would receive permanent personal tax relief.

Fully 93 per cent of Ontarians would see a reduction in their personal income tax. We also proposed permanent sales tax and property tax cuts for low- and middle-income taxpayers. These tax cuts will enhance the progressiveness of Ontario's tax system. Economists from Hugh Mackenzie to Jack Mintz have highlighted the benefits of this initiative.

Like governments around the world, we were ready to confront the challenge of this recession. The investments we've made are the right ones in the context of an unstable global economy. Like governments around the world, we had to keep people working. We had to make sure Ontario's auto sector stayed alive and is poised to grow. Like governments around the world we had to invest to create jobs, we had to invest to help communities, and we had to invest to improve our vital public services.

What's important here is that we took immediate action to help Ontario manage through a recession. Like governments around the world, as we emerge from this recession, we will have to contend with a larger deficit and the sustainability of our vital public services. This will be a challenge every bit as big as the recession itself.

The McGuinty government doesn't shrink from challenges.

As John Kenneth Galbraith once said, "All of the great leaders have had one characteristic in common: it was the willingness to confront unequivocally the major anxiety of their people in their time."

Our first several years in office were focused on rebuilding public services. We invested in our schools, in our health-care system, in our colleges and universities, and in the environment.

Now, with economic recovery in sight, we need to shift our focus to sustaining public services. The challenge of sustaining public services will be just beginning as the

recovery takes hold. We need to stay ahead by continuing to grow our economy and ensuring that we sustain the public services that are so important to our international competitiveness.

As we come out of this recession, and we will come out, we will have to address our deficit and debt.

Working with all Ontarians, our government will bring leadership, determination and a balanced and principled approach to doing just that.

We will be sharply focused on our priorities: health care and education, including full-day early learning for four- and five-year olds.

And as we make the tough choices ahead, Ontarians can be assured that decisions will be informed by our values of fairness, targeting those who need it most and investing for the future.

We will work harder still to give Ontarians greater value for their tax dollars.

Ontario will grow and prosper in the post-recession world.

We have a well-educated and highly skilled work force, we have a first-rate health-care system, and these are key economic advantages.

Just this summer, Toyota announced an expansion of its plant in Cambridge, Ontario. When asked why they chose Cambridge, the answer was the quality of Ontario's work force.

We also have the strong presence of growing 21st century industries here in Ontario—financial services, information technology, the creative and entertainment sector, to name just a few—that even through the downturn, continue to increase employment.

Our Green Energy Act now puts us in a leadership position in encouraging a green economy.

Ontario has great fortitude—as a people and as a province. We've seen challenging times before, and we will again, but Ontario, in the end, always thrives and

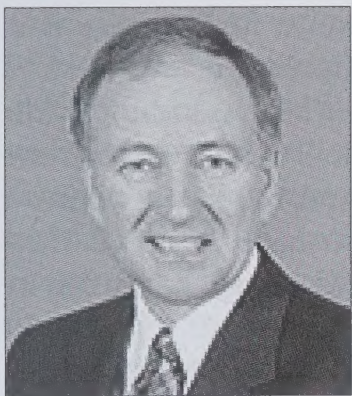
always moves forward. When we are through this, and we will get through this, Ontario will be bigger; Ontario will be better; and Ontario will be stronger.

Thank you.

The appreciation of the meeting was expressed by Alfred Apps, President, The Empire Club of Canada, Partner, Fasken Martineau, and President, Liberal Party of Canada.



John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Freshman-Hillard Canada, and President, The Canadian Club of Toronto, The Hon. Rob Nicholson, Minister of Justice and Attorney General of Canada, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



November 6, 2009

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

The Hon. Rob Nicholson

Minister of Justice and Attorney General of Canada

WHITE COLLAR CRIME ACT, BILL C-52

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Nick Chambers, Director, The Canadian Club of Toronto, and Partner, Benchmark Performance Inc.; Matt Morton, Vice-President, Sales, GTA, Walton Capital; Alex Squires, Managing Partner, Brant Securities Limited; Reginald Stackhouse, Principle Emeritus and Research Professor, Wycliffe College, University of Toronto; John Capobianco, President, The Canadian Club of Toronto, and Senior Vice-President, Public Affairs, Edelman Canada; Helmut Dostal, Founder, President, and CEO, BCS Media Group; Nick Simone, President, Walton Capital; and Ivy Huang, Grade 12 Student, Sir Wilfrid Laurier Collegiate.

Introduction by Alfred Apps

Rob Nicholson

Thank you and good afternoon, ladies and gentlemen.

It is always a pleasure for me to be in Toronto. But being here today is particularly special for me.

The Empire Club of Canada has a long-standing tradition of welcoming the most compelling speakers from Canada and around the world to address their members.

Among the past speakers who have shared this podium is a man who inspired me to pursue a career in politics—Prime Minister John Diefenbaker.

When I was 11 years old—and I'm dating myself here—my class became involved in a discussion about the Cuban missile crisis, which led me to write a letter to Prime Minister Diefenbaker about the issue.

To my great pleasure, he wrote back. I was thoroughly impressed that he would take the time to do that.

It was then that I decided I would like to be a Member of Parliament one day.

I was also drawn to the law profession at a young age. As it happens, some of my neighbours were lawyers and I would get into discussions with them about the law as a career. They told me how fascinating a profession it was. Every client that came through the door presented a new and exciting challenge.

To me, both law and politics are noble forms of public service.

For many years, I worked in a small, local law firm in Niagara Falls. I worked in various areas of the law, including criminal defence and family law, real estate and wills. I gained much understanding of the real issues that affect the everyday lives of Canadians.

I truly believe that this experience helps me in my role today as Minister of Justice and Attorney General of Canada.

I have always had a great appreciation for our legislative process and for the importance of lawmaking—both as a lawyer and as a parliamentarian. And I have always taken pride in Canada as a law-abiding country, with one of the finest and soundest justice systems in the world.

In my current role, I have a tremendous responsibility to our justice system, and to live up to the principles of our modern democracy: dedication to the rule of law, as well as to freedom, equality, justice and dignity for all—some of the enduring and overarching principles shared by modern democracies like Canada.

Although, in my eyes, we have one of the best justice systems in the world, it is not without gaps. Our day-to-day lives have changed a great deal since Canada's Criminal Code was first enacted in 1892. And these changes have accelerated in the past few decades.

Our justice system needs to keep pace with these changes. Some issues are global in scale and have forced nearly all countries to adjust their plans and priorities seemingly overnight.

The global economic recession has had such an immediate impact on all aspects of our daily lives that it tends to dominate public discourse.

Through Canada's Economic Action Plan, our government has made it a priority to stimulate economic growth, restore confidence and support Canadians and their families.

But even in these uncertain economic times—in fact, especially in these uncertain economic times—I must also continue my role as Canada's Minister of Justice and Attorney General in maintaining the integrity of the justice system and, in particular, making it more efficient and effective to meet the expectations of Canadians in the 21st century.

Our government came into office on a promise to tackle crime—to ensure that our communities are safe places for people to live, raise their families and do business. This promise is driving the pragmatic steps we have taken as a government to protect society. I believe there can be no true justice if people fear for their safety and security, especially those who are most vulnerable.

Likewise, if people cannot be confident that our laws will be enforced and that criminals will have to face real consequences for the harm they do, society may lose confidence, not only in legal institutions, but also even in the reality of the rule of law as a foundation of our society.

We, as legislators, are working to ensure that our justice system remains fair and efficient for everyone involved. The rights of the accused must be respected, certainly, but those rights must not be allowed to take precedence over the rights of victims and law-abiding Canadians.

In recent months I have spoken to victims of various fraud schemes and white-collar crime, and they clearly attested to the gravity of these crimes.

Fraud can have a devastating impact on the lives of its victims, not only in their financial security, but also through feelings of humiliation for having been deceived into voluntarily handing over their life savings. These schemes can be every bit as devastating as a physical assault. The determination of these victims to call for action on fraud, in the face of their emotional turmoil, reaffirmed the need to act quickly and effectively against this type of crime.

That is why two weeks ago I introduced legislation—Bill C-52—that cracks down on white-collar crime and fraud and increases justice for victims.

It will amend the Criminal Code to provide tougher sentences for the criminals responsible, specifically a two-year mandatory minimum jail term for fraud over \$1 million, with a maximum term of 14 years in prison.

It will also add several new aggravating factors that can be considered by the courts when handing down sentences in fraud cases, including:

- the financial and psychological impact the fraud has on the victim;
- the victim's particular circumstances, including their age, health and financial situation; and

- the magnitude, complexity and duration of the fraud, and the degree of planning that went into it.

The legislation will also require judges to consider requiring offenders to make restitution to victims in all fraud cases. In fact, sentencing will not proceed unless judges consider restitution.

It would also permit the court to impose prohibition orders so that the offender may not take employment or do volunteer work involving authority over other people's money in the future.

It would allow judges to take into account, when sentencing an offender, not only victim impact statements but also community impact statements. The latter would be presented by someone from a neighbourhood, an association or a seniors' group—indeed, any group of people that has been impacted by fraud that may also include the direct victims and even others not financially affected who may still suffer other impacts.

Through these provisions, the voices of victims of crime will be heard and their concerns taken seriously in the courts. Working together on behalf of victims is the right thing to do.

But of course, we want to prevent other people from becoming victims of crime as well. That is why fighting crime is central to our government's agenda.

We have accomplished a great deal when it comes to cracking down on crime and better protecting Canadians.

This includes our comprehensive Tackling Violent Crime Act, which targets dangerous offenders, impaired drivers, adult sexual predators and those who commit serious gun crimes.

We increased penalties for street racing, and established the National Anti-Drug Strategy to curb the supply and demand for illicit drugs.

Recently, there have been more positive developments, with the granting of Royal Assent for legislation

that will go a long way in ensuring the safety and security of Canadians, such as:

- Bill C-14, which stipulates that any murder connected to organized crime be automatically considered first-degree, subject to a mandatory sentence of life imprisonment without eligibility for parole for 25 years and increases the sentences for drive-by and other reckless shootings if the offence was committed for a criminal organization
- Bill S-4, which gives police and justice officials greater powers to intervene at an earlier stage of identity-theft criminal operations than they could previously, stopping the illegal acquisition and traffic in identity information before it can be used to commit identity fraud. It also means that judges can order offenders to pay restitution to a victim for costs related to rehabilitating their identity, in recognition of the high financial and emotional toll that identity theft takes on its victims
- Bill C-25, which will restrict the amount of credit granted to offenders for time served in custody prior to conviction and sentencing

Two-for-one-credit for time served in remand awaiting trial will no longer be given, and truth will be restored to sentencing.

Last week, I tabled a bill that will permit judges to impose consecutive periods of parole ineligibility for multiple murderers.

The legislation we are proposing would acknowledge the value of every life taken by this most serious of crimes. It would ensure the criminals responsible serve a sentence that more adequately reflects the gravity of their crimes. And it would better protect Canadians, by keeping such criminals in jail where they belong.

Protecting society is a priority, not an afterthought, and our government remains dedicated to strengthening our justice system.

As we continue to deliver on our promise to tackle crime, we will continue to listen to the views of Canadians on how we can continue to improve our justice system and make our communities safe for all.

As we account for the changes in Canadian society and our daily lives, we can meet these new challenges through pragmatic measures that are guided by those enduring and overarching principles of democracy, freedom, equality, justice and dignity for all, and dedication to the rule of law.

To conclude, if I may, I would like to quote from Prime Minister Diefenbaker's address here in February 1963: "I am a Canadian. I know that this land, in the next one hundred years, will be a land true to the traditions of the past, that all of us will be able to say, as did the Fathers of Confederation: 'They built it better than they knew.'"

Thank you.

The appreciation of the meeting was expressed by John Capobianco, President, The Canadian Club of Toronto, and Senior Vice-President, Public Affairs, Edelman Canada.



November 12, 2009

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

General Rick Hillier

Former Chief of the Defence Staff, Canadian Forces

A SOLDIER FIRST

Chairman: John Capobianco

President, The Canadian Club of Toronto

Head Table Guests

Doug Turnbull, Deputy Chair, TD Securities; The Hon. Bill Graham, Director, The Empire Club of Canada, Former Minister of National Defence, and Former Minister of Foreign Affairs; Joyce Hillier; Susan McArthur, Director, The Canadian Club of Toronto, and Managing Director, Jacob Securities Inc.; Alfred Apps, President, The Empire Club of Canada, and Partner, Fasken Martineau LLP; Tom Anselmi, COO, Maple Leaf Sports and Entertainment; David Deslauriers, Managing Director, TD Securities; Helen Burstyn, Immediate Past President, The Canadian Club of Toronto, and Chair, Ontario Trillium Foundation; Zane Piekenbrock, Managing Director, Canada Company; and Tim Reid, Director, The Empire Club of Canada, and Director, Business Development, ZED Financial Partners.

Introduction by John Capobianco

Rick Hillier

John, thank you very much for the introduction. Ladies and gentlemen, I've said this many times, so if you've

heard me say it before, forgive me. Always ask forgiveness, not permission, is what I believed I learned from the Joey Smallwood School of Public Speaking. I have been introduced a lot during my life. I used to say there have been several introductions that I remembered. John, I say this because I obviously enjoy the short, concise, and precise introduction. Thank you very much for that.

I'm a soldier. I've been a soldier all my life. At one event I was introduced as an admiral in the United States Navy. I have no idea where that came from. I was also introduced as a Dutch major general when I took over command of the division in Bosnia back in 2000. The only thing I could think of that caused that was that when we did the Change of Command ceremony (as you probably already know by my accent, I am a Newfoundlander) nobody could understand a single word that I said and assumed it had to be Dutch. Hence I was introduced as a Dutch major general.

The introduction that really stuck with us as a heart-warming one was about this time of year some years ago. Joyce and I were invited out to the Royal Canadian Legion for a dinner for about 350 people. I was going to speak. There was a head table. We had a small reception. We had three incredible World War II veterans who were 89 years old. One of them was going to introduce me. During the reception, he had more than his normal allocation of triple scotches and he couldn't do the job. These guys, being the practical, pragmatic, common sense men that they were, said, "General Hillier, would you introduce yourself?" And I did. It was the most complimentary introduction I've ever had in my entire life, I have to tell you.

I'll just tell you this little one. I'm trying not to sound arrogant and pompous. I apologize up front. I was at an event last week and was introduced by a young soldier, Andrew Knisely. He was wounded terribly in Afghanistan. He had his left leg torn off by an explosion, most of his right arm destroyed, and other wounds throughout his

body. He was a big, tall, good-looking man, just a great Canadian. You'd love to have him as your son. He introduced me. He got up and said, "This is General Hillier. He was my commander and we trusted him. Over to you." That was it. I thought, "Oh my God, what a compliment from a young soldier to stand up and say that you were trusted by him as a leader."

I'm proud to be here today. I just feel so honoured to be here with the family that we have just seen and with Kevin. My goodness, the last time I saw Trevor Greene was about a year and three quarters ago with Debbie. I've got to tell you, the inspiration this incredible Canadian gives others is unbelievable. What he has done with the support of that phenomenal woman in the last two years to change their lives and the lives of others has been absolutely unbelievable. It really is a privilege to be here with him today, particularly around November 11.

I'll also tell you, ladies and gentlemen, from the heart, one of my personal heroes is that young guy on the left who was up here—Kevin. This is an incredible soldier. He has absolutely powerful values. He's a leader extraordinaire. People follow him because he inspires them to follow him. He's done that in the toughest kinds of missions that you would ever want to be in and really is a hero of our country. We are so lucky to have people like him to serve in our Forces. Thank you for what you do.

Ladies and gentlemen, it is noon. We have just finished an incredible Remembrance Day—a day of remembrance and commemoration and appreciation across our country. During the Remembrance Day activities yesterday, our Commander-in-Chief, the Governor General of Canada, wore her uniform. As a soldier, it really is nice to see our Commander-in-Chief wearing her uniform for something like Remembrance Day. It was delightful to see. I would like to ask the folks who are in this room either in uniform who are serving, or perhaps not in uniform, or who have served in the Canadian Forces and served our

country, to just stand and be recognized by the rest of the people here for what you do for Canada and all Canadians from coast to coast to coast. If you're a veteran or a soldier or a serving soldier, would you stand and be recognized please.

There are a lot of other folks here today that have a special place in my heart, such as the Honourable Bill Graham, who was my Minister of Defence, and I believe recommended me to the Prime Minister of Canada as the next Chief of Defence Staff. I'm not sure how much he regrets that. There are moments when I regretted it, Bill, I've got to say. Bill is one of the individuals I have the utmost respect for and enjoyed working with and working for and one of the individuals I believe who really took an interest in our men and women in uniform and their families across the country. He made changes that were necessary and indeed he did that in a most incredible way, so thank you to Bill Graham.

There's another guy back here, who is very special to Joyce and me—Mr. Tom Anselmi from Maple Leaf Sports Entertainment. Tom has been to Afghanistan three times. He's worked to get musicians and players and alumni from the NHL to Afghanistan, and helped get the Stanley Cup there. He's just been an incredible individual helping young Canadians 12,000 kilometres away from home on a dirty, dusty, dangerous trail, who think they're all alone. This guy has been instrumental in connecting them back to Canada and Canadians during their tours and letting them know that indeed they are not alone. They have the support of Canadians represented by the National Hockey League and Maple Leaf Sports Entertainment. Tom, you've been an incredible friend and a great supporter.

Tom knows I've got to tell this story. We took the Stanley Cup into Afghanistan. This thing was absolutely beautiful for our soldiers. It was like a cooling mental salve for people who were stressed and people who were undergoing very difficult things and people who had lost

their friends. We took the cup there and the young men and women were incredible with it. They had the cup. One guy had his picture taken lying in a bunk with his arm around it pretending he was asleep with it. They hoisted it. They found their favourite teams and their favourite players. A young guy, 18 years old, a young soldier, managed to weasel up to me knowing that I was a Toronto Maple Leafs fan. He said, "Sir, of course, you realize with the Stanley Cup here in Kandahar, the Taliban have been closer to it in the last 42 years than the Toronto Maple Leafs."

I told Larry Tanenbaum that story last night at the True Patriot Love Dinner, but we're going to win the Cup in 2010. We'd like to bring it back from the United States of America. The Toronto Maple Leafs are going to do that. We're all on side.

Thanks to Toronto-Dominion for being the sponsor here today. I have a very special relationship with Toronto-Dominion. The reason I became a part of that bank in the financial group was because of the leadership of a guy named Ed Clark who's a pretty incredible guy and perhaps most in demand around the world these days by people who want to know which way to go from here.

Frank McKenna is a good friend. We worked very closely together when he was the ambassador down in Washington and I was the Chief of Defence Staff. Frank said a couple of times, "Rick, when you are ready to retire, I might be able to help you through the transition. I've done a couple of transitions and I might have a few tips to offer you to avoid some pitfalls." I said, "Frank, I look forward to that."

On April 15 last year, I announced my retirement. Two days after that, the phone rang. It was Frank. We had a lunch scheduled for a couple of weeks after that down in Toronto. He said, "Rick, I heard about the announcement. Sorry to see you go. We're going to have the lunch. I'm already making a list of things that I would recommend to

you to avoid or to seize. Right up front, I have two pieces of advice for you. Number one is to make no decisions early. Let the dust settle. Let the offers come and go. Take some time for yourself and your family. Let the dust settle and make no decisions early. Make no commitments right away. Number two is that Toronto-Dominion would love to have you come and work for it." Thank you Toronto-Dominion for what you have done.

There are just a couple of other folks I want to introduce here because they are special and they deserve to be recognized. I would just like to ask Alan Cole and his team if you would just stand up. Alan and his team of Jane and Luke and the other folks who are here look after our soldiers when we lose them in Afghanistan. You cannot imagine the compassion and the tenderness and the professionalism with which they treat our soldiers and the family members and look after them in every way possible through what are the worst days of their lives. I just want to say that you do a great service to Canada through the Canadian Forces by what you do each and every day. Thank you for what you do.

Ladies and gentlemen, I did write a book. It is called "A Soldier First." To tell you the truth, I really didn't want to write it. I wanted to write a book on leadership. When I talked to the publishers and my Editor-in-Chief, Jim Gifford from HarperCollins, who have been absolutely incredible in their support, they said, "We'd love to publish that book on leadership, but before that we'd love to publish the story." We bound the two together and I'm now in the midst of trying to produce the first draft of that second book, the one that my heart is really in, which is a book on leadership. I wanted to do that for a variety of reasons.

I think every day as a soldier I saw people in uniform demonstrating leadership, demonstrating the principles of leadership through their actions in a way that was most incredible and absolutely gratifying to watch. Most

people across our country don't get to see it. I think that story about their leadership characteristics and traits and tips needs to be told. In Canada every time I looked for a book on leadership or tips on leadership, all I could find was one written by somebody from outside Canada. I thought there was a great Canadian story about those men and women in uniform and I wanted to tell it. I have to say thanks to HarperCollins and Jim Gifford for their support.

Let me just say three or four things about what I tried to talk about in that book and in the stories that we told in "A Soldier First." The first one was of how incredibly important our families are to us and what they mean to all of us, particularly those who serve, and particularly those who serve far from home for long periods of time.

We were never very good at looking after our families. I joke, but it really is true. We used to have a saying in the Army that if the Army had wanted you to have a family, we would have issued you one. That coloured our entire approach. We really treated our families for decades and decades like excess baggage, like unaccompanied baggage. You were responsible for looking after your family and too bad if it got tough. If it broke, you were expected to fix it because that was your responsibility in the Army. The Canadian Forces really wasn't in that business.

We realize in this age of global communications that if the family breaks back in Canada, in five minutes the young man or woman deployed in the Persian Gulf or in the middle of Africa or in the middle of Afghanistan is aware of that. That young individual then is focused on the family. We lose him or her just as if he or she had been a casualty from an enemy. And so first of all for mission success, we had to support the family. We had to do it because it was right. We were demanding so much from our young men and women in uniform. The families were bearing the stress of that without any support whatsoever. We encountered families, for example, that would,

when their loved one deployed, never turn the TV or the radio off. They wanted to know every time something occurred around the world, particularly in the area where the deployment had taken place. They became news junkies. Then we had another group of families who never turned the TV and radio on. They didn't want to know anything. They didn't want to hear a knock on the door and they didn't want to hear that telephone ring, particularly late at night, because they were always fearing the message that would come.

Those families were fundamentally important to what we had to do. We started to change the attitude of the Canadian Forces and, equally important, change the attitude of Canadians towards those families. I think the True Patriot Love Dinner on Tuesday night was a perfect example of the fundamental shift that has occurred in our country; 1,800 to 2,000 people showed up to support the Military Families Fund. We raised \$2 million for it. We had the opportunity to showcase the families and talk about what they endure and what they give to our country, albeit indirectly.

I supported the change. I tried to be at the front end of the change, of driving it when I was the Chief of Defence Staff. Many other folks got onto it far faster and much more capably than I did. Sometimes I didn't practice it myself. You heard Joyce introduced here today. I'll just tell you a couple of stories. I didn't always look after my wife and my family like I wanted the other soldiers and sailors and airmen and airwomen to look after their families with our support.

I was in training one time. We distrusted our instructors so much because we thought that they were assessing us in every way and putting stress on us. I was in the tank heading downrange to do a tactical exercise to be assessed as to whether or not I was going to be an officer in the Armoured Corps. A lot of people had failed the course already, so we were already nervous and under

the gun, so to speak, young officers, 19 years old, 20 years old, 21. The guy who was the instructor came on the intercom and said, "Mr. Hillier, I just want you to know before we start the exercise that your wife has been sent to hospital for an emergency operation. I just want to know a) whether you want to carry on with the tactical exercise and we'll have a vehicle meet you at the end and take you to meet her right away in the hospital about 35 kilometres away or b) whether you want to stop the exercise, take a vehicle right now, miss your turn in the shoot and go to the hospital with her right away?" I thought to myself that he was lying to me. He was putting pressure on me. He was tricking me. I said, "Of course I'm going to carry on with the tactical exercise and I'll go to see her afterwards."

We did the tactical exercise of six hours. At the end of it he did a debriefing. I managed to get a pass in it. He said, "Right, the vehicle's right over there to take you to visit your wife." I said, "Visit my wife? Why would I want to do that?" "Well, she just had an emergency appendix operation and she's in Oromocto Public Hospital. Your six-month-old son is somewhere, we're not sure where, and now you can go and find them." Joyce has never forgiven me for that, I've got to tell you.

I continued my poor support of my family. When I was the Commander of the Army in late September and early October of 2003, the Secretary-General of NATO was visiting Canada. Canada at the time was really pushing hard to get command of the NATO mission in Afghanistan. My name was clearly in the chute. If Canada got the mission, there was no doubt from our minister's perspective and the perspective of Chief of Defence Staff at the time Ray Henault, that it was going to be Rick Hillier.

I had been really busy doing a variety of things. We had been running flat out. I went home one night, and sat down with Joyce in our family room. We were sipping a glass of wine. We turned on "The National" and Peter

Mansbridge's lead story was, "Today, the Secretary-General of NATO visited Canada and announced that a Canadian three-star army general will command a mission in Afghanistan starting in January." Joyce looked over at me and said, "Tell me again how many three-star generals there are in the Army in Canada?" I said, "Honey, it's me." That's how she found out I was going off to command the mission in Afghanistan.

I'll just finish up by saying I tried to amend my ways the day I announced my retirement. It was a long day. I got home about 10:00 o'clock that night. Joyce and I broke open a bottle of wine. We sat down and felt we'd done the right thing, taking the right steps at the right time for the right reasons. The next day was a full workday for me. I was out the door at 6:10 a.m. in the morning with my small team. Joyce was still in the bed asleep. She is the romantic in our family. I'm heading down the road in the car with a small team. I'm looking around and all of a sudden I grabbed the cell phone, phoned her and got this sleepy hello. I said, "Joyce, do you know what day this is?" Joyce is the romantic. She said, "Is it the first day of the rest of our lives?" I thought really quickly and said, "Joyce, yes it is, but it's also freaking garbage day, so put the garbage out because I forgot." So there you go.

We have learnt over these past years. I think part of the great story of Canada's Armed Forces over particularly the past three, four or five years, based on the incredible support from huge numbers of people like you here and the True Patriot Love Dinner, is that the family is so incredibly important.

One of the other things we really learnt and I tried to tell in our story and will continue to tell in the leadership book is that one person makes a difference. One person makes a difference. Unless you think I'm being arrogant and pompous, I'm not talking about myself because I didn't. I saw incredible young men and women and their families who made a difference.

I'll tell you a very short story of one woman who was like that. Her name was Maureen Eykelenboom. Some of you may know her. I had the opportunity of meeting Maureen during the worst day of her life. It truly was. That was the day we both met in Trenton when she went to receive the body of her son Andrew Eykelenboom who had been killed in June of 2006 by a suicide bomber. Andrew was a combat medic, an incredible soldier, and an incredible professional. Wherever he went during the operations, Andrew tried to do a little extra for the children in and around that little village or that little area, whether it was a medical clinic or whether it was helping train somebody in maybe a few hours in basic first aid, so that they could carry on after he had left. He was killed by a suicide bomber.

I met Maureen in Trenton. When I walked in the door she was standing there waiting for me. Before I was fully in the door, she had her finger in my chest. She's not a very tall woman. Maureen is just a small woman, but she's got a fire and a "no reverse" on her that everybody gets consumed by in the most positive sense. She said, "General, we're not going to let Andrew's death be forgotten, are we?" I said, "No, Maureen, we are not." She said, "We are not going to let his sacrifice go unnoticed or unappreciated by Canadians, are we, General?" I said, "No, Maureen, we are not." She said, "We're not going to have the work that he was doing for those children stop in Afghanistan, are we, General?" I said, "No, Maureen, we are not." By now her finger has gone through my chest bone and into the front part of my spine. "General," she said, "we're going to do something. I don't know what it is yet. And you're going to be a part of it, aren't you?" I said, "Yes, Maureen, I am." She said, "General, did you know that my maiden name was Hillier?" I said, "That friggen well explains it, doesn't it, Maureen? I've been bossed

around by my mother, my five sisters, my wife, my daughter-in-law, potential daughter-in-law all my life.” I said, “Why should you be any different as a Hillier woman?”

That woman established the Boomer legacy. Boomer was Andrew’s nickname. What she tried to do was facilitate support to the children in Afghanistan particularly in the Kandahar area where our soldiers were. She has raised \$275,000 so far and distributed it directly to projects helping children, particularly preemies and young children born with the highest mortality rate in the world. There is no overhead, no administrative costs, and no corruption. The money goes straight to programs and equipment, affecting the lives of hundreds of people in a most positive way.

Realizing that preemies die more quickly because they lose so much heat through their skull, she got a group of ladies across Canada knitting what they call the Boomer cap, a little knitted Boomer cap. These ladies knit the caps and our soldiers take them in their combat pants pockets by the half dozen. They hand them out to the village elders if they’re males. If they’re female soldiers, they’ll hand them out to the females they encounter in those villages. So far the ladies have knitted and sent to Afghanistan 75,000 Boomer caps. Can you imagine this incredible lady Maureen Eykelenboom? One person can make a difference.

One of the things that I reminded myself every day was that I had some 90,000 young men and women in uniform in the Regular and Reserved Forces who looked to me for leadership, who looked to me to represent them. I had in a different way, but still very important to me, about 150,000 family members across the country who also look for that kind of representation. I always reminded myself every morning when I looked in the mirror to shave, that if I wasn’t going to tell a story of those young men and women in uniform in the Navy, in the Army, in the Air Force and the family members who supported them, then

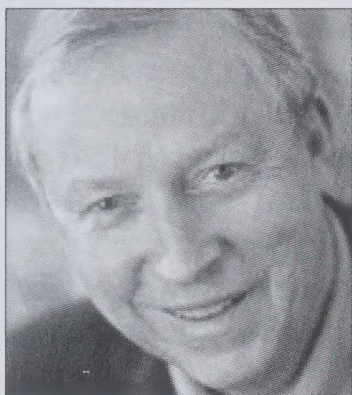
who was going to do it. I was their Commander and I felt that on their behalf I had to have the moral courage to tell their story.

The last thing I'll say is that when you do get an opportunity to write a book about something that you've been involved in, and describe the incredible story of the Canadian Forces and people who serve our country so well, you get an opportunity to have a soap box. Having gone through the Joey Smallwood School of Public Speaking, I was always reminded that if it was worth saying once, it's worth saying five or six or seven times. If you ever got an audience of three, four, 500, 1,500 or 1,800 captive, you never, ever let them out, not one single time, and you had to use that soap box to achieve all that you possibly could.

I had an incredible career as a soldier. I consider myself a soldier now and will be until the day I die, which I hope won't be for an incredibly long time. I enjoyed the appointment of Chief of Defence Staff, though I must admit, if somebody had said I was going to be Chief of Defence Staff when I was a young captain or major, I would have jumped off the nearest building I could have found, I think, and taken the easy way out. I've got to tell you that representing and commanding those men and women in uniform and their families is something that I would do all over again. I would do two things. I would join the Canadian Forces, join the Army as a soldier, and I'd marry that girl right there.

Thank you very much ladies and gentlemen for your attention here today.

The appreciation of the meeting was expressed by Alfred Apps, President, The Empire Club of Canada, and Partner, Fasken Martineau LLP.



November 17, 2009

James Hoggan

Chair, David Suzuki Foundation

CLIMATE COVER-UP: THE CRUSADE TO DENY GLOBAL WARMING

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Craig Brown, Director, The Empire Club of Canada, and Partner, Fasken Martineau; Max Naylor, Grade 11 Student, Northern Secondary School; Rev. Canon Kimberly Beard, St. Pauls on the Hill, Pickering; Eileen Tobey, Director, The Empire Club of Canada, and Entrepreneur, Owner and President of a family holding company; and Graham Harding, Vice-President, Operations and Energy Services, Enwave Energy Corporation.

Introduction by Alfred Apps

James Hoggan

Thank you. I'm honoured to be here today. Thanks too for arranging this talk. Thanks to all of you for coming out to listen.

I want to tell you a story about the most widespread public misinformation campaign I've come across in my

35 years in Public Relations (PR). You can find the details of this PR hoax in our new book, "Climate Cover Up." I'll give you the abbreviated version today. "Climate Cover Up" is a story of selfishness, greed and irresponsibility on an epic scale. In its darkest chapters it is a story of deception and widespread media manipulation. It is a story about the boatloads of coal and oil money spent to attack climate scientists and confuse the public about global warming (GW).

Before I start let me explain how I came to write this book.

I didn't go looking for trouble. I am not an activist or environmentalist. I certainly don't have a grudge against the establishment. I have owned a corporate PR firm for 30 years. I've worked for big companies on all sides of environmental issues. I have lectured in business circles, at journalism conferences and at PR schools. I have even written a book on corporate PR. In business, I have a reputation for being a tough advocate for my clients but I believe that my job as a PR advocate is to increase the flow of accurate and truthful information.

Deception offends me. It is unethical to pervert or obstruct information when the facts or circumstances don't suit my client's interests. We all have the right to our own opinions but not to our own set of facts. PR advocacy that isn't tempered by honesty undermines the integrity of public conversations.

That's what "Climate Cover-up" is about. It tells a story of a Darth Vader approach to PR that ignores the need to balance advocacy with honesty.

This whole project started five years ago, when we were reworking the Hoggan Web site. I wanted to add a public-service section and someone suggested we include something about climate change, maybe something that would clear up some of the controversy. I started reading, and I found that there wasn't any controversy.

The Intergovernmental Panel on Climate Change, the Royal Society, NASA, and the science academies of every major nation on earth all agreed that humans are changing the climate in a dangerous way.

Let me read you a quote I came across: “The scientific basis for the Greenhouse Effect and the potential impact of human emissions of greenhouse gases such as carbon dioxide on climate is well established and cannot be denied.”

That’s not from Al Gore. That was written by Mobil Corporation’s most senior scientist in a 1995 report for an energy industry front group called the Global Climate Coalition.

Unfortunately, the PR guy who commissioned the report didn’t like it and he stuck the report in a drawer, where it stayed until the New York Times dug it up earlier this year.

When this report was written, the Global Climate Coalition was pushing an aggressive PR campaign to sow doubt about climate science. And this report notwithstanding, the coalition kept spreading confusion until 2002.

The more I read, the more deeply offended I became. I spoke to some friends and they were offended as well.

My friend John Lefebvre asked: “What can we do about it?”

That’s how DeSmogBlog started and why we published this book.

The PR campaigns that we document are all about doubt. Consider this advice that a PR guy named Frank Luntz, gave the Republican Party in 2002.

Luntz said: “Voters believe that there is no consensus about global warming within the scientific community. Therefore, you need to continue to make the lack of scientific certainty a primary issue in the debate.”

The doubters have done their job. Recent PEW research found the number of Americans who think there

is solid evidence that the earth is warming has fallen from 71 per cent to 57 per cent. The number who believes that global warming is due to human activity has fallen from 47 per cent to 36 per cent.

And it is no wonder. Looking back at the last two decades, we have documented a whole industry devoted to creating climate confusion.

We've found that energy companies and manufacturers have paid legions of PR people, right-wing think tanks and compliant scientists to "make the lack of scientific certainty a primary issue...."

We found three separate industry documents setting out complete strategies to deny climate science or to confuse people about the implications. One came from the coal industry, one from the American Petroleum Institute and one, perhaps surprisingly, came from Philip Morris.

The Western Fuels Association, a coalition of big coal-burning electrical utilities, joined with the National Coal Association and the Edison Electrical Institute to create the first one in 1991. It was called the Information Council on the Environment (ICE for short). Original strategy documents show this to be an astroturf group, a fake grassroots group. It started with two goals: "reposition global warming as a theory (not a fact)" and "supply alternative facts to support that global warming would be good."

On advice from the D.C. PR firm, Bracy Williams and Co, ICE went into small U.S. markets and tested a series of messages in focus groups, including:

- "Some say the earth is warming. Some also said that the earth is flat."
- "Who told you the Earth was warming ... Chicken Little?"
- "If the earth is getting warmer, why is the frost line moving south?"

Well, the frost line was not moving south, but that wasn't the point. ICE wasn't testing its messages for accuracy. It was testing them for public impact.

In the Public Relations business we call this positioning or messaging.

ICE also tried out different spokespeople and found that audiences didn't believe what coal or electrical company officials said about the environment. But they believed "technical experts"—people with white coats and PhDs. So ICE identified a group of compliant scientists—people like Patrick Michaels who took coal money in return for promoting doubt in broadcast interviews and newspaper articles.

In PR we call this third-party endorsement.

The Western Fuels Association also produced a very odd video about carbon dioxide. They called it "The Greening of Planet Earth."

You can still find it on YouTube, describing carbon dioxide as "plant food." Ignoring climate disruption, they actually say that more carbon dioxide will be a good thing.

The second strategy document we found originated not with big oil but with a cigarette company.

Of course, big tobacco had long ago turned lying and confusing the public into an art form. And in the early 1990s, they shared that knowledge with dirty energy industries.

It was actually 1993—a time when many people were swearing off cigarettes and governments were banning public smoking because of the dangers of second-hand smoke.

People had stopped believing tobacco industry "experts." So Philip Morris's PR Company, APCO Worldwide, created a "grassroots" group of "independent" scientists who would make their case. They called this group The Advancement of Sound Science Coalition (TASSC).

When you think of what “grassroots” really means, this comes up as an effort to steal credibility from the people. Real grassroots groups represent the legitimate views of regular citizens who band together to spontaneously fight for a cause.

But TASSC wasn’t like the Montgomery Improvement Association that supported Rosa Parks in the 1950s Civil Rights movement. TASSC was an “Astroturf” group. The grass was 100-per-cent fake.

But if the TASSC tactics were murky, APCO’s intent was clear. An early APCO memo outlined the media strategy to manipulate public opinion. Their first two priorities were to:

- establish TASSC as a credible source for reporters when questioning the validity of scientific studies
- encourage the public to question—from the grassroots up—the validity of scientific studies

Note that there was no intent here to challenge the validity of climate science by doing research. This wasn’t a laboratory strategy. It was a public relations strategy.

Philip Morris also realized that it couldn’t do this alone, so APCO sent recruitment letters, inviting 20,000 businesses to join the fight for “sound science.”

In an effort to “link the tobacco issue with ... more ‘politically correct’ products,” APCO created a list of compatible issues. These included:

- Global warming
- Nuclear waste disposal
- Biotechnology
- Food processing and packaging

The third strategy got underway at the end of 1997, when the American Petroleum Institute (API) recruited Steve Milloy of Philip Morris’s TASSC group to craft another campaign of confusion. It was called the Global Climate Science Communications Plan and it laid out the tactics point by point.

The plan recommended:

- identifying scientists who were willing to promote doubt about climate science;
- giving these scientists media training to enhance their credibility;
- paying them to write newspaper articles or do interviews; and
- promoting them as spokespeople—especially in small markets where reporters were easier to buffalo.

API got caught with this PR plan and they said at the time that they were not going to implement it. But their actions suggested otherwise. For example, they started soliciting help from scientists and usually not even real climate scientists. They just grabbed any compliant PhD and pushed them into the public eye.

In their mission statement, API said that victory would be achieved when uncertainty about climate science is part of conventional wisdom for media and average citizens. They said, in effect, that the goal was NOT science education; it was science confusion.

If you read our book, you'll see that their plan was full of other tawdry tricks for baffling the public and pressuring politicians. You'll see that API presented itself as a "grassroots" campaign, concealing the energy industry role in paying scientists to speak out. And once you understand the tactic, you'll start to see it everywhere.

For example, API was caught this summer setting up fake rallies, using rent-a-crowds and friendly "experts" to scare seniors with misinformation about the cost of the U.S. cap-and-trade legislation.

These days, Astroturfing is more contagious than swine flu. Dozens of PR firms specialize in it. They build anonymous Web sites and set up boiler rooms full of low-paid employees who are coached to misrepresent their purpose. They invent petitions, create phoney demonstrations and harass politicians. Like the API, they hire

rent-a-crowds or they order industry employees to make tiny crowds look bigger.

What they DON'T do is identify their clients. They don't say, "Hi, we're from The Advancement of Sound Science Coalition, a front group for Philip Morris and Exxon."

They don't say; "We're the Friends of Science, a Canadian Astroturf group funded by the Alberta oil and gas industry."

They don't say; "We're the American Coalition for Clean Coal Electricity, a puppet organization of America's largest coal and electric companies."

That last organization hired a D.C. Astroturf firm named Bonner & Associates this year to fight U.S. climate change legislation. Bonner filled the phone rooms and told employees to say they were representing "seniors in your community." But then they got caught forging letters of opposition from legitimate seniors' groups and sending those letters to congressional leaders to influence the vote.

This is an assault on democracy and free speech, and the perpetrators are getting away with it.

Lobbyists in Canada and the U.S. have to declare whom they're working for, but Astroturfers don't. They can impersonate concerned citizens or legitimate scientists. There's no law against it and no mechanism to expose their funding, or their deceit.

So it's no wonder we can't tackle climate change. We're paralyzed by spin. We know that we should be skeptical but we don't know whom we can trust. And trusting no one, we lose our opportunity to work together as a society, to act in our collective self-interest.

On our Web site, the DeSmogBlog, we have been running a series called, "Who is killing Copenhagen?"

I originally suggested a more pessimistic title a month ago—"Who killed Copenhagen?"—but our colleagues were still working so hard for a good result in the coming

climate negotiations that we didn't want to dampen their enthusiasm by acknowledging the obvious: Copenhagen is dead.

There seems to be little chance of the world committing to a fair, binding and ambitious deal in December.

Whose fault is that? Well, I think the main fault lies at the feet of the people that I have been talking about today.

But climate change is tough. It demands thoughtfulness and vision. It demands the kind of long-term goal-setting and planning that tests the capacity of governments that face re-election every few years.

Climate change demands courage and leadership. It will require a significant shift in the global economy from fossil fuels to something that is more renewable, sustainable and less environmentally devastating. That's difficult stuff.

In the face of that difficulty, you have a concerted campaign of people saying, "GW is not a problem."

Industry front groups like the Friends of Science have even said, "The globe is actually cooling."

And some politicians and business leaders are saying, "Let's wait to see what everyone else does."

In our "Who's-killing-Copenhagen" series, we identified some specific suspects. We talked about right-wing think tanks and industry front groups. We talked about specific individuals in the media, some of whom have been shockingly irresponsible.

Today, I'd like to nominate another suspect in this murder mystery: it's the Canadian government. No longer is Canada the trustworthy middle power that won worldwide recognition and admiration in the days of Lester Pearson. No longer are we the people who can bring countries together to fight apartheid or to conquer the threat to the ozone layer, as we did in the days of Brian Mulroney.

In fact, the current federal Environment Minister, Jim Prentice, derided that very identity recently when he told

CanWest Global, "We will not be the boy scouts at the table."

No. Canada, whose citizens currently produce 22 tonnes of greenhouse gases per person, per year, plans to do everything possible to prevent an agreement that includes binding limits.

Mr. Prentice has said that Canada shouldn't be compelled to take action until China and India bind themselves to carbon reductions.

Never mind that the Chinese produce barely five tonnes per capita and the Indians less than two. This, obviously, is not about leadership.

The problem is that our government has no plan. Rather than meeting the commitments it made in Kyoto in 1997, Canada has overshot its goal by more than 30 per cent. We don't even have a plan to reach the government's current modest goal of scaling back to 1990 emissions. We don't have a plan and apparently don't want one.

When the David Suzuki Foundation and the Pembina Institute released a M.K. Jaccard & Associates report showing what was necessary to meet that target, Minister Prentice dismissed that vision as "irresponsible."

I wonder whom the minister thinks he is being responsible to? Under the Jaccard calculations, which were sponsored by the Toronto Dominion Bank, the economy in Alberta was to continue growing through the next 10 years at the rate of 3.3 per cent, and the national economy would grow at 2.2. That sounds pretty responsible. In many parts of the world, that would sound fabulous.

It's true that tar sands production wouldn't triple, which is the current plan. But no one is headed to the poor house. Not in this country. Not unless the extreme weather events that are predicted strike even more quickly than expected.

In that light, if Minister Prentice had a higher regard for boy scouts he might know that their motto is “be prepared.”

At a time when the world faces what could be the greatest environmental catastrophe in human history, we're not.

I want to say two more things about the Copenhagen killers.

First, lest any of you interpret my remarks as a partisan attack, let me remind everyone of what the Liberal government did about climate change in the 1990s. Nothing. Until the Liberals acknowledge their past poor performance and apologize, they will have a difficult struggle to the high ground.

Second, when I say that the Canadian government is killing Copenhagen, I am really saying that it is all of us. We elected this government. We tolerate its positions. There are no mass marches of unhappy Canucks storming Parliament Hill and demanding a more responsible approach.

So, it's not THEIR responsibility. It's OUR responsibility. And given the influence of the people in this room, few of us can go home cursing poor governance.

You all have telephones. You have Blackberries filled with contacts. You probably have friends and relatives who are still mired in confusion about global warming. And I'll bet you have colleagues who continue to repeat every outrageously silly thing that Rex Murphy or Terence Corcoran say about the uncertainty of climate science.

We cannot let that stand. The next time you hear someone waffling on the science, Google a copy of Elizabeth Kolbert's *Climate of Man* series from the New Yorker and e-mail it to them. Even better, buy them a copy of our book and dare them to read the first three chapters.

The stakes on this issue are just too high to ignore. In the medium to long term, there is an environmental risk unprecedented in human history.

But Canada faces a more immediate risk if the country becomes an international pariah. Over the years, our traditional boy-scout reputation has been good for business and good for Canadians at large in the world.

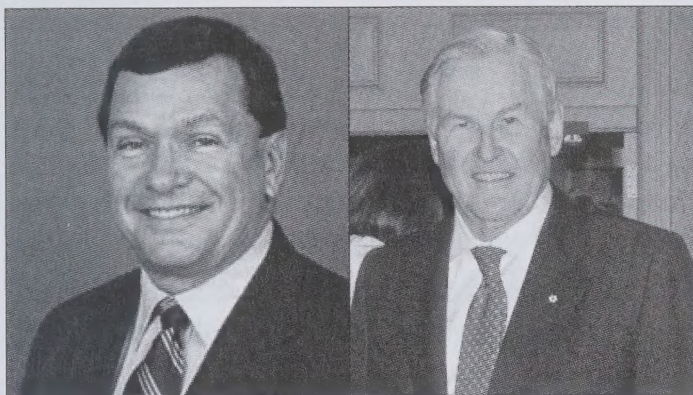
We don't want to turn into a country where our kids sew American flags on their backpacks before they go travelling.

We surely don't want to be in a position where international trading partners have to decide whether to do business with us DESPITE the fact that we are Canadian.

So, I think Minister Prentice has it wrong, we WANT to be the boy scout at the table. It's time for Canada to show leadership. It's time for each of us to demand that and nothing less of ourselves and of our country.

Do that and your children and grandchildren will thank you. Do less and they will suffer like no previous generation on earth.

The appreciation of the meeting was expressed by Craig Brown, Director, The Empire Club of Canada, and Partner, Fasken Martineau.



November 25, 2009

A joint meeting of The Empire Club of Canada and
The Canadian Club of Toronto

The Hon. Frank McKenna

Former Canadian Ambassador to the United States

The Hon. Michael Wilson

Former Canadian Ambassador to the United States

CHANGE WE CAN BELIEVE IN? OBAMA: A YEAR LATER AND THE IMPACT ON CANADA

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Helen Burstyn, Immediate Past President, The Canadian Club of Toronto, and Chair Ontario Trillium Foundation; Anne Golden, President and CEO, The Conference Board of Canada; John Capobianco, President, The Canadian Club of Toronto, and Senior Vice-President, Financial and Public Affairs, Edelman Canada; Neil

Selfe, Director, The Empire Club of Canada, and Managing Director, Investment Banking, GMP Securities; John Ibbitson, Former Washington Correspondent, The Globe and Mail; Major Gillian Frederico, Deputy Area Chaplain; Gary Clement, Manager, TD Bank Financial Group; Don Johnson, Senior Advisor, BMO Capital Markets; Bob Ramsay, President, Ramsay Inc.; Edward Badovinac; and Jocelyn Badovinac, Honorary Director, The Empire Club of Canada.

Introduction by Alfred Apps

John Ibbitson

It was a little over a year ago that Barack Obama stood before a crowd of hundreds of thousands at Grant Park in Chicago, elected the first African-American president of the United States. Those of us who were there that day will never forget the particular sound of that exultant throng at 11:00 p.m. when the networks declared him President. This was history. As always, Mr. Obama said it better than anyone else. He said that night, "If there is anyone out there who still doubts that America is a place where all things are possible, who still wonders if the dream of our founders is alive in our time, who still questions the power of our democracy, tonight is your answer."

Since that night, the 44th president has grappled with a vicious economic crisis and a severe recession. He is trying to crack the health-care strategy that will clear Congress, while also enrolling 47 million Americans who are without insurance into the health-care system, and to create a climate-change bill that will not do irreparable damage to the American economy.

As for relations with Canada, I think virtually all Canadians are enthused by the presence of Mr. Obama in the White House. I remember one poll that said that 60 per cent of Canadians would surrender the right to vote in a Canadian election if they could just get to vote for Mr. Obama. Nonetheless, we have a protectionist Congress

with Buy American provisions. Both environmentalists and environmental sceptics wonder how our two countries can craft a plan to fight global warming that doesn't do irreparable damage to our economies.

Frank McKenna and Michael Wilson had ringside seats on Pennsylvania Avenue in all the years leading up to this. We're anxious to hear their thoughts. Mr. McKenna, if I can start with you. One year and a bit after the election of Barack Obama, what is your assessment of his presidency, both on its own terms and in terms of Canada-U.S. relations?

Frank McKenna

Let me set the context. First of all, he's human. Secondly, he was elected with 49 per cent approximately of Americans voting against him, vehemently in many cases. Thirdly, he did not take office in November. It was late January before he took office. Fourthly, he entered office without any public servants literally supporting him. The entire top echelons of public servants in the United States lose their jobs when elections happen and so they have to start all over. A lot of them haven't even been replaced to this day. You start off with that deficit.

Let's set the scene. This was a country and a world that was right on the edge of this great financial tsunami. We'd seen Bear Stearns go down; we'd seen Lehman Brothers go down; we'd seen Merrill Lynch go down; we'd seen AIG go down. We saw General Motors and Chrysler and Ford circling the drain. We saw Freddie Mac and Fannie Mae going down. We saw a massive rescue program of financial institutions called TARP. We saw all of those things. We saw a huge structural deficit, all of which he inherited. He walks into office and the thing he has to start with immediately is a stimulus package. In Canada this went through consensually with the political parties. There, it was stopped by the Republicans every step of the way. Many Americans didn't think it was appropriate.

He started by fighting for a stimulus package. Then he had to turn around and deal with all the aftermath of the financial tsunami.

Housing prices have dropped something like 29 per cent, one-third of their value from peak to trough. You ended up, I think, with mortgage foreclosures at the rate of 300,000 per month. In Canada, we have 10,000 per year in comparison. Bailouts of the financial institutions are continuing to take place throughout his watch and then the compensation, which he had to answer for, in those financial institutions. He introduced the health-care measure, which was extraordinarily difficult. It would be in any country, but in a deeply polarized America, it was particularly difficult for him to try to use his capital up fairly quickly. I would say that the climate was extraordinarily difficult. Today, the United States' unemployment is in the double-digit area. It's got continuing reductions in house prices; it's got the aftermath of the financial restructuring and so on, bailouts of the auto companies. A lot of Americans are angry and they're frustrated. It's no wonder they take it out on their president.

On the accomplishment side, I would say health care will be an accomplishment, very tough to do. I think he will achieve it. I think he'll receive historical acclaim for it after it's done. Cap and trade is working its way through Congress. Michael and I both know that all the President can do is propose; the position comes from Congress. Maybe more importantly than anything else, he has presented another face of America to the world. The world now sees America as an ally and a friendlier protagonist on major world issues. I think at the end of it, people will say he's burnt off a lot of political capital, but you can't live in such troubled times without attracting some unpopularity.

Very quickly to end, in terms of Canada-U.S. relations, I think they're excellent. On the downside, of course, we've seen the thickening of the border, if you like, with the

passport requirement, but that really was well down the track long before he came into office. It's been in motion for a long time. I think that would be a negative.

The Buy America was a negative, but we have to put that in context too. Canada has its own trade barriers for provincial and for municipal procurement. United States is matching that with Buy America, but at the national levels we don't; we continue to have Free Trade. This would be one ripple in the pond, but not fatal to the overall success of the trade relationship.

On the plus side, we've had our visit. The first visit from him to a country was to Canada. That is something that we always take for granted, but it's more respected by the breach than the observance that Canada receives that first visit. He's highly liked and admired in Canada. We were able to do an Auto Pact deal together that allowed both of us to work. I give credit to Michael and his people and the Canadian government in achieving success in not being isolated in terms of resurrecting the auto industry.

Similarly, we have matched efforts in cap and trade. On that, he has really helped considerably in giving us cookie crumbs to show us how the oil sands can be brought perhaps into the tent where it's more acceptable environmentally in the United States of America.

I think for all of those reasons, I would say the relationship is excellent between the Obama administration and Canada.

John Ibbitson

Mr. Wilson, your thoughts?

Michael Wilson

Frank's covered a lot of territory in a very short time. Let me just try to fill in some thoughts here. First of all, it's been a remarkable period. The first African-American president created a tremendous amount of excitement and anticipation when he came into office. As Frank has

pointed out, that has suffered because of the challenges that he's faced during this period.

The man is a very, very gifted orator. This is something that he will use and he has used, I think, to great effect, but it has been a very, very difficult time for legislation and it will continue to be a difficult time for legislation. There has been a sense of disappointment, of disillusionment, and certainly the polling numbers would support that by a slipping away of the support that he's had.

If you look at things internationally, there's no question that he has offered a different face to the world. He's made some significant outreach efforts, with the speech to the Muslim community. He's made a number of trips, but there's certainly much more of a sense of openness, of dialogue with him than with President Bush. This has been a very positive change. This is going to be a difficult period for him with the international community. It's a tough world out there. While he has reached out in a number of ways to try to get some dialogue going, the results that he has been able to demonstrate have not been as successful as he would like.

I'm going to read something to you. This is just a short script from what he said to the United Nations in September:

"Those who used to chastise America for acting alone in the world cannot now stand by and wait for America to solve the world's problems alone. We have sought—in word and deed—a new era of engagement with the world. Now is the time for all of us to take our share of responsibility for a global response to global challenges."

The challenge has been offered by the President and we in Canada and other countries have to take note of that.

I guess the question we have to ask ourselves is: "Are these efforts more transparent? Are they more open to attempts of bipartisanship in domestic matters? Are they

working?" As Frank has pointed out, it's been a tough time for him.

Domestically, I think Congress today is as rancorous a Congress as we've seen in a long, long time. The Republicans are opposing practically anything that he puts forward. Even within the Democratic Party we have seen some significant divisions. As one person put it to me this way, he said, "Trying to get the Democrats together is like putting a blob of mercury on the bottom of a glass and holding it still." The more they move to the middle to get the moderates, the more he loses the people on the left and vice versa. It's a difficult domestic time, but certainly his achievement in addressing the economic and financial issues, I think, has been a success and it's been quite a remarkable achievement for what he's been able to do.

Health care, I think, is going to be a little tougher than the tone you left, Frank. I just think he'll get something, but it'll be quite watered down. With climate change, probably if we didn't have Copenhagen facing him and the international pressures that are building, I don't think we would have got as far as we have in Congress. Likewise, with financial regulation, if we didn't have the G20 process moving, I don't think that we would have the progress that is being made in Congress. We see two different approaches in the House of Representatives and the Senate. The administration is a little bit different still. He is facing very difficult challenges .

On the U.S.-Canada relationship, I agree with Frank that the relationship is in pretty good shape. The two leaders have had two bilateral meetings, one in each of the other's capital, but they've also met on a number of occasions at these international meetings. They do get along well. They are on the same wavelength when they're talking about different issues, different domestic political circumstances, but they're pretty close on a number of these top issues.

The area where I see the most activity is with ministers meeting with their counterpart secretaries in Washington. There have been over 40 ministerial-secretarial meetings since the visit here in February. That is an extraordinary number. When I tell this to my ambassadorial colleagues in Washington, they are amazed at how many of these visits have been made, partly because of the strength and the complexity of the relationship, but also proximity is an important element of that.

I think the key factor in the relationship, it goes back during the Bush years as well, is the national security issue. There's a better tone and progress there. Afghanistan has been terribly important. What our men and women in uniform have done there on both the military side and the development and government side is very highly respected and appreciated.

On the border, also a national security issue, I've seen an improvement from the discussions that we had in the Bush years to the types of discussions that we're having now between Secretary Napolitano and Minister Van Loan. They have agreed to meet on a regular basis and talk with an agenda as opposed to just having general meetings, which is what we had before. While there's still a long way to go, we've had some successes. I think that there will be progress there.

I think there are other issues we're going to have to watch very carefully. One is climate change. We have some differences, but we are next door neighbours so there are competitive aspects about how we deal with these things. I would say that the most frequent ministerial visitor in Washington by quite a margin would be Jim Prentice. He's leading this file. It's a very difficult file because on the one hand he's got to be able to demonstrate some progress. On the other hand, he cannot get too far out ahead of the Americans without putting us exposed if the Americans go one way post-Copenhagen

and we're already going the other way. There are some challenges there.

The trade file, I think, once we got softwood out of the way in 2006, was fairly benign, but now we're seeing things perk up a bit. Frank mentioned Buy American. This is clearly a response to economic anxieties out in the countryside and required some response, not a big deal in terms of the broad trade relationship, but in terms of the impact in a very focused way. Yes, it is a concern that we have to deal with. There are other issues—I won't go into them in detail—that are starting to perk up because of the protectionist pressures that are now more prevalent than we've seen at any time since I started down there. There is lots of activity between the two countries. I think that there's no reason why we should be getting into any real problems here, but the situation has to be managed carefully.

If I were going to conclude with one sentence, looking at what the polls are saying in the United States and what John has said here, I think that President Obama's thinking that maybe it would be fun if he were in Stephen Harper's chair.

John Ibbitson

Canada, as you know, has been doing heavy lifting in Kandahar. We have paid the price in blood and treasure for it. This government and this Parliament are committed to withdrawing the military component of the mission by 2011.

Next week, we expect to hear from President Obama his plans for Afghanistan. All of the early indications are that he will approve the ramping up of forces. He will offer a clear exit strategy (Who knows what that will be?) for eventually withdrawing from that country and leaving it stable. If he is successful at doing that, outlining a way ahead that makes sense to the two of you, does it make sense for us to pull out in 2011 or would you consider the

possibility that we should consider staying in and working with the Americans in some role? Mr. McKenna, let me start with you on that.

Frank McKenna

I don't see any circumstances under which we stay in our current role after 2011. The Americans would very, very much like us to stay, but we are extraordinarily valuable to them as an ally. They know it and they acknowledge it.

If you look at what we've done, we have gone into the most dangerous part of Afghanistan. We've done it without caveats. People have to understand that there are a lot of forces in Afghanistan from different countries. We are one of the only ones that are there that are unfettered. There are some that literally are kept out of harm's way; they don't go out at night; they don't respond to combat situations. Ourselves, the Dutch, the Americans, and the Brits are about the only people that are caveat-free. We have fought in the most dangerous areas in a caveat-free environment and we have suffered disproportionately more losses by a large margin than everybody except the United Kingdom and the United States. I suspect if you looked at the population sizes of those countries, we may be the largest single country in terms of losses. We've paid a heavy price for our involvement. As always, the tradition of bravery, courage and valour of the Canadian troops, I think, has been exemplified here.

I don't see any circumstances under which we would continue in our current role, either for political reasons or perhaps, more importantly, for purely logistical reasons. I'm not sure that we can rotate more troops in. I think that may be an issue, but we will have some form of new role there.

I think an area of ambiguity is how we will support peacekeeping efforts or reconstruction efforts without some combat capability to protect those efforts.

John Ibbitson

Mr. Wilson, are we at the end of our tether?

Michael Wilson

I think that Parliament has spoken. I think the position that the Canadian government has indicated is still very much in line with what Parliament said a couple of years ago. The question, though, that you put is, "What would we do post-2011?" I think that what we are seeing in Canada is that the Afghans, whether it's the army or the police, have to be in a position where they can provide their own security. I think that we'll see next week with President Obama's statement a very strong commitment towards training. I think this is something that we and other countries, even the countries that have put the caveats in place, can take a more active role in. That is critical.

The other aspect, which I would support and I don't think there would be anybody in this room who wouldn't support it, is increasing still further the development activities that we have. Afghanistan is our number-one recipient of foreign aid at this point. I would think that that will continue. We've got some very good projects over there, such as the Dhala Dam. We're working with the Americans to rehabilitate that. We're building 50 schools. We have a nationwide polio immunization program. These are things that we can continue, but we will need to have some ongoing security support for these because we've seen in the past the schools that we've built have been burnt down by the Taliban. We can't just say, "There it is; you've got the school," and walk away from it. It's going to be difficult to try to find this, but going back to that challenge that the President threw out at the United Nations that I quoted, Canada has to recognize that. That's the world that we're living in, and whether it's Canada or whether it's other major countries, we all have to participate in these global challenges.

John Ibbitson

Thank you for that. We already have some very good questions here. Let me ask this one first. The White House announced this morning that President Obama will attend the Copenhagen Summit on climate change, which puts Prime Minister Harper, who's inclined not to attend, in an awkward political spot.

The question is, given all the political capital that Obama has had to spend on health-care reform, what do you expect from Washington on climate-change policy? How fast do you see it all taking place? Does he still have the leverage to get something done and what would it look like? Mr. Wilson.

Michael Wilson

I can answer the second part of the question. I don't know what it's going to look like. The different approaches that are being put forward by different countries around the world leave it pretty unclear as to where this is going to end up. The President has said he wants to see the United States taking a leadership role in this. If there's one country that can play a leadership role in this, it's the United States. I think that while there is quite a debate, I understand, as to whether or not he would go to Copenhagen, he's going to be in Norway the next day to get his Nobel Peace Prize. I think that he probably felt, in the end, he had to be there to put an American push behind this. No one is expecting anything definitive.

What I think he will be looking to do is to get some agreement on political objectives that we can, as interested countries, try to build around as we go forward over the next period of time after Copenhagen. This is not going to be fast happening. If they can get a sense of directions and agreement on that then it makes the rest of the job a little bit easier.

John Ibbitson

That said, Mr. McKenna, if Mr. Obama is going to Copenhagen, even if he is stopping by and giving an idea of moving forward with a global agreement, one that includes the Brit countries as well, what could and should Canada's response be to that?

Frank McKenna

I think Canada's been playing it very smart on the climate-change file. At the end of the day, we cannot be alone. We cannot get out in front of our blocking; 40 per cent of our production goes into the United States of America. Perhaps we can be more aspirational in many ways in our leadership, but we eventually have to have policies that dovetail with that of the United States of America. I think the government is moving in lock step. I think that's a good thing.

Obama's a true believer in climate change. There's no doubt about that. It would not be unusual for him to be at a conference where this is the focus of world attention. On the other hand, Congress are not true believers. The United States right now may be the greatest single obstacle to progress on climate change because of the fact that the economy is the most important issue that congressional members are facing and it trumps their climate-change agenda. I think the United States will make progress on its own internal agenda on climate change in the fullness of time, but we have to remember that local politics in the United States is paramount. Right now you've got a Democratically-controlled Senate and coincidentally, they represent a majority of the coal States. They are all totally opposed to anything that would impact on their coal industry. That's making it very difficult to get something that is as ambitious as the White House might want.

On the other hand, it does allow our oil sands and the coal industries to be simpatico in terms of probably look-

ing at longer runway and more money on technology and all kinds of other things, that will protect those industries or reinvent them during the spirit of transition. Right now I would say the most that we would come out of in Copenhagen are aspirational goals and perhaps frameworks and expressions of principle, certainly nothing in the way of a concrete agreement.

John Ibbitson

That's for Mexico next year and then we will all start writing lead-up to Mexico stories. This is one of those big, big picture questions. When I went down to Washington, Ed Greenspon, who was then Editor-in-Chief, gave me a mandate letter of two sentences. It said, "Is the United States still a city on the hill or is it just an empire in decline? Go find out."

This question is very much in that vein. It appears that the following factors have caused a material decline in the social, political and economic prowess of the United States—litigiousness and class action prevalence, poor education system, short-termism, poor business ethics, lack of personal responsibility, huge swing to socialism, etc. Do you agree that the U.S. is in decline and do you believe it can be reversed? Mr. Wilson, let's start.

Michael Wilson

I don't think it's a wise move to bet against the United States. The United States is a powerful, powerful country. Travelling around, you really get a sense of the depth and the breadth and the competitive nature of the people in that country. They're going through a tough spell now. One of the etceteras that I'll mention that the question omitted, Frank alluded to it, is the roadblock in Congress today. Congress was the form of government established 225 years ago to limit the role of government. Now you're looking to the Americans to take some of these big issues. Health care is one, climate change is another, and financial services regulation are all very important to us here

in Canada and dependent on what they do in the United States. These are in a log-jam right now and that is something that has got to be a concern.

In the end, there is no doubt in my mind that they are going to come through and continue to be a strong country. What you might add to that question is what is going to be happening around the United States? I think that is where the gap is going to narrow. Countries that hitherto have not been major players globally, China being the most obvious one, are looking out much more in a global sense. India, we've seen that just over the last couple of days. Brazil. Brazil is a country that's aggressively trying to build a place for itself in the global community. The gap is going to narrow, which makes that challenge from the United Nations a very important one.

How are these other countries going to work with the United States to address the global challenges or are we all going to go our separate ways? That, I think, is the fundamental question.

John Ibbitson

Mr. McKenna, you worked with the bank that went from being the fourteenth largest bank in North America to the fourth-largest bank in North America in the space of a year just by doing nothing wrong. Don't take that sitting down, now. Do you see the challenges facing the United States as ultimately compelling them to go into decline or is there another chapter?

Frank McKenna

Just to give you a funny story about the bank before we do that. We've got about as many branches in the United States as we do in Canada. We're over 1000; we're building like crazy down there. It's all branded TD now. This has been the case for about a year or more. Last fall we had a cruise ship pull into Saint John, New Brunswick. The cruise ship was full of American tourists and they get off right in front of a TD branch in Saint John, New

Brunswick. The branch manager overheard one tourist saying to the other, "See, I told you, they've even got TD up here in Canada now."

I want to endorse everything that Michael said. I agree with all of it. I'll just add one other observation—the kind of risk that I see going forward. There's no doubt the political structure of the United States, while it's worked magnificently for them, is really not designed well for dealing with crises. Right now we've got intense polarization, and it's very hard to get things done. Some Americans like that because they don't want government getting things done.

The one thing that I'll isolate from everything else is the fiscal situation. Going back some time now, the United States is having increasingly larger annual deficits. This year, we're getting into a deficit of \$1.2 trillion, north of 10 per cent of GDP when most people think fire alarms should go off over 3 per cent of GDP. There's a trend line that does not bring it down until way out in the future. I can tell you, having been in government, the deficit you deal with 20 years out is the easiest one you'll ever deal with. It's the one today that's the tough one. I think it's going to be very hard to get the toothpaste back in the tube on spending and on taxes in the United States. That would concern me the most. The United States, I think, as mighty a country as it is, cannot sustain trillion-dollar deficits indefinitely. It will have a huge impact on the currency, which has a huge impact on us. It will have an impact on interest rates. It'll have an impact on the entire global economy.

As a bank, obviously interested in the welfare of the United States because we're tied to it, that would be an area of concern to me as much as anything.

Michael Wilson

Can I just add one point here? It's more of something that's embedded in the history. Both of you have touched

on this. It is the concern people have about the intrusion—I'll use that word carefully—of government into our lives in the United States of America.

You have the United States owning the number-one bank, controlling the number-one bank, the number-one insurance company, the number-one carmaker. You've covered these, Frank, earlier. This, together with what is happening in health care, with what's happening in financial-services regulation, what is happening in climate change. People in the United States who have carried this historical concern with them through their lives, it's part of their DNA, are looking at what is happening.

What's the cumulative effect of all this happening and what is it going to mean to our country because we value the freedom that we have, not having too much government in our lives? That is the elephant in the room in all these difficult debates that we've been referring to earlier. How is that going to play out and what is going to be the response of the American people to that question?

John Ibbitson

Here is a non-economic question. I'm sure everyone knows Omar Khadr was a young Canadian who was captured during the firefight in Afghanistan shortly after 9/11 and has been languishing in Guantanamo ever since with dubious legal status. Canadian governments have not requested his repatriation back to Canada. The situation remains pretty much the same right now while we wait for different court rulings on his legal status. The question is, "Would agreeing to take back Omar Khadr, which increasingly seems to represent a travesty of justice, to which our courts have spoken, help Canada-U.S. relations under Obama?"

Let's make that a double-barrelled one, Mr. McKenna. Would it help our relationships to take Omar Khadr back and ought we to?

Frank McKenna

I'm sure there have been discussions going on for some time on the issue of Guantanamo. I have not been privy to them, so I don't know the answer to the first one. The government has taken a particular view on Khadr. I don't think I want to elaborate on the answer, but I'm not as sympathetic to the Khadr family as the press is in Canada. We'll see what develops on this file, but people need to pay a price for their actions. The family has quite a track record.

Michael Wilson

I think the position of the government has been that if there's a legal process underway in the United States it should run its course and a decision based on the outcomes.

There's another concern. I'll mention it and I'll have to be very careful how I address it, but there's been an overriding concern in the United States since 9/11 and it goes back to Ressaam, the so-called Millennium Bomber, that we're soft in this country. I'm not suggesting that that should be a consideration in the government's decision as to how they should deal with this, but what I will say, and I guess it's a related point to the point that Frank has made, we will suffer with people who are managing these national security files if we are seen to be doing something which is not quite appropriate in the circumstances.

John Ibbitson

Prime Minister Harper has just returned from an extended trip to India where we now have more trade missions than any other country than the United States. Next week he leaves for another trip to China and South Korea. The question is that the U.S.A. is a country of horrendous budget and trade deficits and astronomical national debt. Why should Canada remain attached to such a country whose military is its main asset? Should

we not orient ourselves towards Europe and to the Pacific nations? We'll start with you Mr. Wilson.

Michael Wilson

I disagree with parts of that question in the sense that we are linking ourselves to the United States not because of the military; it's much, much more than that. As Frank has just said, 40 per cent of our economy is related to our trade with the United States. We're there in our own self-interest. I think that we should not be looking to see how we can diminish that relationship. Going back to some of the things I said earlier about the relative position of other countries, I think we should be very conscious of what is going on in the so-called BRIC countries and other countries that are just below that category and seeing how best we can improve our economic relationship. We have underway right now a negotiation with Europe on an economic development agreement, which is broader than trade. Those are some of the things that we should be doing—reaching out, but not minimizing or diminishing the current strong position that we have with the United States today.

John Ibbitson

Yet, Mr. McKenna, sometimes you wonder if there is zero-some gain. Can we keep all of the rich, interlinking trade relationships and economic relationships that we have with the United States and still expand into Europe and more particular, into the BRIC countries? Does one not have to give for the sake of the other?

Frank McKenna

No, I don't think so. I think we can do both and I think we should do both. I agree with that answer completely. Let's face it. We have to be realistic. I own a kitchen cabinet company. We put kitchens on trucks everyday and run them right across the border into the United States. It's easier to do that than to get them into some parts of Canada. We have a seamless trade relationship with the

United States, 40 per cent of our GDP going there. We've got 51 electrical transmission lines, 35 gas pipe lines, 22 oil pipe lines. It is easy and profitable for us, but we should also have alternatives. That includes Columbia, Peru, trade agreements there; South Korea, Europe. I think these are all directionally very, very important things to do. Brazil and some of the other Latin American countries are huge growth markets for us. We should be doing all of the above.

We should not assume the United States is not going to be the world's biggest economy for a long time into the future and the most convenient economy for us to put our goods into and the most profitable economy. I think we need to do all of the above. Quite candidly, the government, I think, right now is pursuing the all-of-the-above option.

The appreciation of the meeting was expressed by John Capobianco, President, The Canadian Club of Toronto, and Senior Vice-President, Financial and Public Affairs, Edelman Canada.



December 3, 2009

David Henderson

Founder and Managing Director, XPV Capital Corporation

WATER: THE NEXT ENVIRONMENTAL BATTLEGROUND. WHAT ARE THE OPPORTUNITIES FOR CANADA?

Chairman: Tim Reid

Board Member, The Empire Club of Canada

Head Table Guests

John Walker, President and CEO, Transition Plus Sustainability Solutions Inc.; Sailesh Thaker, Vice-President, Industry and Stakeholder Relations, Sustainable Development Technology Canada; George Ross, Deputy Minister, Ontario Ministry of Research and Innovation; Rev. Chris Miller, Minister, Oriole York Mills United Church; Beverly Brooks, Senior Counsellor, Hill & Knowlton Canada; Ken Ogilvie, Vice-Chair, Board of Directors, Sustainable Development Technology Canada; and Tim Reid, Board Member, The Empire Club of Canada, and Director, Business Development, ZED Financial Partners.

Introduction by Tim Reid

David Henderson

Thank you, Tim, for that great introduction.

When we visualize our planet earth, most of us see a blue world. It makes sense, since 70 per cent of the planet is covered in water. So that begs the question: what is the problem? Why did the World Economic Forum meet earlier this year amidst the worst financial crisis since the Great Depression to talk about water bankruptcy?

Well, the challenge starts with the fact that not all water is the same.

Ninety-seven and a half per cent of the world's water is salty and therefore not fit for direct consumption.

That leaves 2.5 per cent that is not salty and 70 per cent of that is not accessible, as it is frozen in glaciers that are slowly turning into salt water as they melt into the oceans.

So that leaves less than 1 per cent of mainly ground water that is accessible for direct use, which could have been sufficient except we have now polluted over 75 per cent of this water source.

What this means is that there are very few places on the planet where you can go and put a straw in the river and drink that water without risking your health, or in the case of industry put in a larger straw—large pipe—and be able to use that water in a process without some level of treatment.

The next environmental battleground—water—is really about the growing demand and supply imbalance of readily available and accessible fresh water that is needed to sustain everything, and I mean everything, on this planet. To make matters worse, there is no alternative to water. Other environmental battles can and will be won with alternatives—just look what is happening to energy production—but not fresh water. It is all we have.

Now when I said we need water for everything, I really meant everything. I am not just talking about the water

we need to drink in order to survive. Water is pretty well used in every modern process. From growing our food to powering our world, water is mission critical. It is used as a solvent or lubricant in most industrial processes, as a medium to transport materials, and to cool our buildings or entire production plants. It is a key input in most products we use every day.

For example, who here owns a pair of blue jeans? Over 10,800 litres of water are used to produce a pair of jeans. That is the equivalent of filling up the average car's gas tank over 216 times with water!

Who here is wearing leather shoes? Approximately 16,600 litres.

Who here is carrying a cell or smart phone? Thirty-two litres per chip. There are now billions of these devices in use today globally.

You see, water, typical fresh water, is used by everyone in pretty well everything. When you combine this fact with some alarming global trends, which I am about to discuss, it is easy to see how our mere 1 per cent of usable, accessible fresh water is under serious threat.

Trend one—Population Growth

Did you know that in the 20th century we tripled the world's population? Today we have 6.8 billion people on this planet and we are about to add another three billion by 2050. In 2000, 500 million people already lived in countries that were chronically short of water and this number is expected to increase to four billion by 2050. So technically, every child who is born today is born into a water-scarce world.

Trend two—Urbanization

In 2008, we set a record as humans. Over 50 per cent of the world's population lived in an urban setting. That means half the world's people have moved to cities. Unfortunately, when the great world city planners got together and decided where cities should go, we decided

to put most of them in warm, dry or coastal regions. Out of 26 megacities on the planet today, cities with a population of 10 million people or more, 15 are located in countries with less than sufficient renewable water resources. More than half of them are located in water-scarce regions!

Cities love to consume water. Shanghai, for example, one of China's most urbanized cities, uses five times the water per capita of the surrounding rural regions.

Trend three—Industrialization

The global industrial revolution has helped raise the standard of living of people all over the world, which is a good thing.

However, industrialization is not so good for water demand. As your standard of living goes up so does your personal consumption. As we discussed earlier, the things we consume—jeans, shoes, micro-chips—use a lot of water. However, an increase in your standard of living also shifts your diet from a low-water-use grain-based diet to a high-water-use protein-based diet. To make this point, let's take a look at the water content of today's lunch.

We had chicken with some potatoes and vegetables to start.

Chicken is about 4,500 litres per kilogram, so let's say for the entire table we consumed one kilogram total. Let's call that 4,500 litres per table.

Potatoes are about 1,000 litres per kilogram. Let's say a table consumed half a kilogram so that is another 500 litres.

To be conservative, we will only throw in 500 litres per table to cover the vegetables and dessert.

I assumed that half of you would at least have a cup of coffee with your dessert after lunch, which is about 1,100 litres per cup, so that's another 5,500 litres per table.

So if we add that up:

4,500 litres—chicken

500 litres—potatoes

500 litres—vegetables and dessert

5,500 litres—coffee

Per table 11,000 litres

There are approximately 25 tables in the room which means we have used over 275,000 litres, or the equivalent of filling up the gas tank of an average car 5,500 times just during this lunch alone.

Now imagine what is happening to water demand when the emerging middle classes of China and India start wearing blue jeans, walking around in Nike leather shoes, carrying smart phones and eating Big Macs?

Simply put, if China and India increase their per-capita consumption of water to equal Canada's—and we have the second-highest per-capita consumption in the world—then the world does become water bankrupt.

So to recap:

Trend number one, population growth, more people means more water demand.

Trend number two, urbanization, we have thirsty cities built in deserts.

Trend number three, industrialization, new levels of consumption and shifting diets is bad news for water supplies.

Trend four—Water Infrastructure Failure

Let's first examine how water gets to your tap. It starts with a giant intake pipe placed in a water source. In Toronto's case it is Lake Ontario. The water is pumped into a centralized treatment facility. We then spend billions of dollars on energy, chemicals, and labour to clean the water and then we pump it into a distribution network of pipes that moves the water to our houses, buildings and factories. Then you turn on your taps, flush your toilets, wash your dishes, and your clothes etc. Once the water has been used, it then goes down the drain into our sewer and wastewater system where the water along with

all the waste is sent to a wastewater plant, where again we spend billions of dollars on energy, chemicals, and labour to clean the water so it can be discharged back into the environment. This system worked well for the 20th century. However it is not so great to meet the needs of the 21st century when you realize that the majority of our pipes were buried in the ground after World War Two and most plants are outdated and hitting capacity. Right now the New York Times is running a series called “Toxic Waters—Systems on the Brink,” highlighting that most of the wastewater plants in the U.S. do not have the capacity to meet the growing needs of the growing American population.

A recent Booz Allen report estimated to sustain the world’s water infrastructure we would need to spend \$22.6 trillion between 2005 and 2030. To put this number in perspective, it far exceeds the estimated \$9 trillion needed for power infrastructure. What this highlights is that we have not invested to the level that we should have in order to properly maintain our water systems.

In Canada it is estimated that over a 10-year period the replacement costs for new and upgraded water and wastewater infrastructure would be \$80–90 billion.

In the United States, the world’s largest water market, the Environmental Protection Agency is projecting that over 50 per cent of the U.S. water infrastructure will be rated as poor to dead by the end of the next decade. What this means is we spend billions of dollars in energy, chemicals and labour to produce clean potable water only to then pump that water into a distribution system that loses 20–30 per cent and in some of the worst cities as high as 50 per cent. We are literally flushing money down the drain.

Finally trend five—Climate Change

I am not here to argue whether or not the earth’s climate is changing due to natural or manmade reasons.

There is however irrefutable evidence that the global hydrological cycle is changing due to changes in the climate; wet areas are becoming wetter and dry areas, dryer.

However, the immediate and most worrisome trend is the world is quickly losing its largest fresh water storage capacity—glacier ice and snowmelt.

A dramatic example of this can be seen in the Colorado River Basin, which starts up in Wyoming and then flows down into Colorado, Utah, Nevada, Arizona, New Mexico and California. This is a pretty important river system. It does, after all, service over 25 million Americans in one of the fastest-growing regions in the United States. A bellwether for this basin is the largest artificial reservoir in the United States, Lake Mead, or you might know it by its famous landmark, the Hoover Dam. If you have been there lately you can see firsthand the impact of climate change because all around the lake you can see a 100-foot white band, which shows how far the water levels have dropped.

Lake Mead is expected to experience what I call the domino effect as its water levels continue to drop.

Today the lake level is about 1,112 feet.

When it hits 1,075 feet in the next few years, the U.S. government will cut water supply to the seven states.

Shortly after this, by around 2012, it could hit 1,050 feet which is now below the intake pipes, meaning Las Vegas loses 40 per cent of its primary water source and the Hoover Dam stops generating electricity which creates another problem as we lose the energy source to pump the water to places like Los Angeles and Phoenix.

Once the water drops to 1,000 feet, Las Vegas will lose all of its primary water.

The Scripps Institute, one of the leading research institutes in California, is even forecasting by 2021 there is a 50-per-cent chance that Lake Mead will be completely dry. A 50-per-cent chance! That means water supply for millions of people will be decided on a coin flip.

Shrinking glaciers and decreasing snow-melt is a global problem.

In Canada, you just need to observe the flow of the mighty South Saskatchewan River, which has seen its source glacier decrease by 50 per cent. The South Saskatchewan River is a vital water source for the world's breadbasket located in Alberta and Saskatchewan, a region that produces 5 per cent of the world's cereal grains. Today, during certain times of the year you can now walk across the river; in others areas the flow is down almost 85 per cent.

The majority of the glaciers around the world are in retreat, whether in the Himalayas or the Alps, placing one of the most important fresh-water sources that billions of people and entire economies depend on in real jeopardy.

What I hope you are starting to realize from my speech so far is that the world water crisis is not something that is going to happen 50 or 100 years from now; the world's water crisis is happening now and it is going to impact everyone.

So enough of the bad news; now let's focus on the good. And this is also where the story starts to get really exciting.

You see I am an optimist, a capitalist and a believer in human innovation.

At the turn of the last century, Malthusians predicted that the world would run out of food but their calculations did not take into consideration the impact of human innovation on food production. I believe the 21st century will see incredible advancements in the production of clean and accessible water and Canada can be a leader.

The global market for water-management technology is large and growing. The Conference Board of Canada projects that the water-management technology sector is worth \$360 billion globally and it is predicted to double every five to six years.

I see at least five key areas where water technology could make a huge difference today.

The first area is energy.

It takes a lot of energy to move water from the lakes to plants, clean the water in the plant, and then pump it to your taps, farmers' fields, and factory floors.

In 2005 the California Energy Commission released a report, "California's Water-Energy Relationship," finding that 19 per cent of the daily electricity used by the state was used for moving and treating water. This number is only going to get worse as the state implements advanced water-treatment technologies that today require large quantities of energy.

To bring it home, results of a study prepared for the Independent Electricity System Operator and the Association of Municipalities of Ontario notes that 33 per cent of municipal energy usage is incurred for water treatment and pumping and sewage treatment.

Desalination is an energy problem. Energy costs in a desal plant can be as high as 50 per cent to 70 per cent and, even though the costs have come down dramatically over the past few decades, desalination is still four times the cost of conventional water treatment and current technologies are reaching their cost-out limitations. A break-through here would be exciting but just to be clear it will not solve the water crisis. Most water use does not take place by the oceans. Think of where our food is grown, the location of industries, mining operations and oil operations, because even if you could line the coasts with desalination plants you would still need to pump the clean water over long distances, which is very expensive. It is an important technology but not the silver bullet that most people believe it to be.

The second area is wastewater streams from human and industrial processes.

Every wastewater stream contains valuable components that can be recycled.

We can produce energy from wastewater streams.

How about extracting phosphates that can be transformed into badly needed fertilizers for crops?

How about extracting valuable metals, chemicals, and bitumen from various industrial wastewater streams that can then be recycled or sold?

The third area is chemicals.

Almost every water process involves some level of chemical treatment. Think of chlorine in your drinking water. The challenge is usually that when you add a chemical you get some sort of derivative that creates an even worse problem. Non- or low-chemical approaches, green “chemistry” or new technologies that can eliminate chemicals without jeopardizing the quality of the output water will be exciting growth areas.

The fourth area is productivity.

It is a \$22.6-trillion problem and I don’t think we have the \$22.6 trillion to spend. I think it will be cheaper and more effective to find ways to extend the life of our pipes and plants. We have land-locked treatment plants in growing cities, meaning that the plants receive more water to treat but can’t physically expand. We need to find ways to make the most of the existing space with more efficient technologies. Maybe it is time for a new approach, such as distributed water systems. I also think it is time to smart metre every drop of water. What you don’t measure you don’t improve.

Finally the fifth area is water scarcity.

This is the hardest to quantify but will be the biggest driver. For example, the Norwegian wealth fund announced in its third-quarter report that water scarcity is now one of the biggest risks to its portfolio. They found over 1,100 public companies that have water as a mission critical input or output and have facilities located in water-scarce regions. They are now pressing for companies to disclose these liabilities.

Technology will make a difference in lowering energy and chemical use in water. It will transform sewers into mines, it will bring current water infrastructure into the 21st century and, most importantly, help regions conserve and recycle their water so they avoid running out.

This cannot all be achieved by the private sector alone; we will need smart policies. I see three key policies strategies that are critical to our success:

One: Introduce transparent cost and pricing for water. We all get energy bills today where we are charged based on kilowatts used. It's now time to start billing for water based on our actual use and the prices need to reflect the real costs of cleaning and delivering water.

Two: Use the existing and new water infrastructure to showcase and demonstrate emerging water technologies. A fantastic case study of how demonstration can make a difference to a company can be found in the ZENON Environmental success story. ZENON was started in the early 1980s by Andrew Benedek, who then partnered with my current business partner, John Coburn. One was an engineer, the other a chemist, and they believe engineers and chemists could help solve some of the world's water problems—and they did. Part of how they got there involves a town, not too far from here, that developed a very serious water-quality issue. This turned into a fantastic opportunity to demonstrate some of ZENON's new technology capabilities. Over the years, they used that facility to showcase their technology to potential customers from all around the world. I think at one point they had over 200 visits a year to the facility by potential customers. That one demonstration facility played a big role in changing the sales slope and the success of ZENON.

Three: Alignment of our incredible research capabilities across our country with current global opportunities for technologies to reduce energy and chemicals, and cre-

ate value from our wastewater, increase water system productivity and decrease water scarcity.

Canada can win this battle and win big. We have all the pieces.

The water industry is already the largest environmental sub-sector in Canada with over \$7.2 billion in revenue.

We have already created world-leading water-technology companies such as ZENON Environmental, Trojan Technologies, Glegg and others.

We have a new generation of emerging new water-technology companies following in their path. At XPV, we track water-technology companies from all over the world and we can confidently say that Canada punches above its weight when it comes to producing innovative water technologies.

Emerging Canadian water-technology companies are:

- Turning costs into profits by extracting valuable nutrients, energy, and metals from wastewater sources;
- Innovating new ways to reuse water in oil and gas production processes;
- Developing drought-resistant crops to help ensure the future of our food supplies;
- Streamlining water-dependent cooling and heating processes by reducing energy, chemicals and the actual amount of water used within the process;
- Developing software that will turn water networks into smart networks; and
- Finding real-time ways to analyze water quality, which will save lives and enhance production processes.

We also have the capital to fuel the growth of these companies. Canada is home to specialized water investors such as XPV Capital, or unique cleantech funds such as Sustainable Development Technology Canada, that is investing over \$1 billion in Canada's cleantech sector, which includes water.

Our economy will also win big. As a country we are highly dependent on some of the most water-intensive industries including oil and gas production, mining, agriculture, pulp and paper, food and beverage—all very water-intensive industries. So by investing and nurturing our water-technology capabilities we are going to get twice the return. On the one hand, leveraging more efficient water technologies will help to increase the productivity and competitiveness of our most vital industries, and on the other hand a growing and vibrant water-technology sector will create 100,000s of new high-value jobs as these new water-technology companies grow and export their solutions around the world.

Canada also has the right brand. I cannot tell you how proud I am to be Canadian. I have travelled the world and seen firsthand the respect people have for Canada because of our openness and high standards. We have a great national brand that emanates trust, something that is very important in the water industry.

We have a great free-market system that has weathered the financial crisis better than most. By putting it to work in water we will keep our advantage.

I also believe we can balance free-market motives with smart policy. Water management will be a key determinant in the future economic growth of cities, regions, and countries. I know it can be done. For example, the Ontario government recently has taken some bold steps in the right direction when it comes to energy with the introduction of the new Green Energy Act. They essentially examined how current energy regulation was impacting government, corporate and individual behaviour and then developed new and augmented existing regulations to encourage the best energy behaviour to meet 21st-century needs.

Maybe it is time for a Blue Water Act. Let's examine how water regulation is impacting government, corporate and individual water behaviour and make the changes

necessary to encourage the behaviour that will address the water needs of the 21st century.

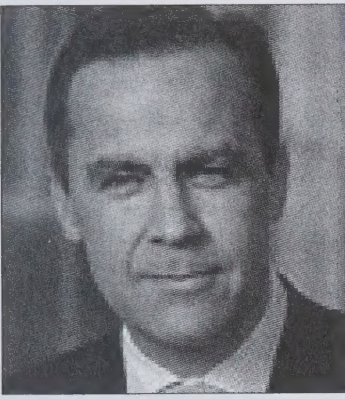
So let me conclude by stating that I do believe the global water battle can be won, but it will take leadership from both the private and public sector. If we do take some bold action, I also believe historians will look back at the 21st century as the century in which Canada helped itself by helping to solve the world's water problems.

Thank you.

The appreciation of the meeting was expressed by Tim Reid, Board Member, The Empire Club of Canada, and Director, Business Development, ZED Financial Partners.



Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada, and David Henderson, Founder and Managing Director, XPV Capital Corporation.



December 16, 2009

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

Mark Carney

Governor, Bank of Canada

CURRENT ISSUES IN HOUSEHOLD FINANCES

Chairman: Nicholas Chambers
President-Elect, The Canadian Club of
Canada

Head Table Guests

Tim Hockey, President and CEO, TD Canada Trust; Alfred Apps, President, The Empire Club of Canada, and Partner, Fasken Martineau LLP; Nancy Hughes Anthony, President and CEO, Canadian Bankers Association; The Hon. John Manley, President Designate, Canadian Council of Chief Executives; Barry Campbell, President, Campbell Strategies, Government Relations and Strategic Communications; Johan Kramer, Consul General, Kingdom of the Netherlands; Amanda Lang, Vice-President, The Canadian Club of Toronto, and Senior Business Correspondent, CBC News; Jonathan Dart, Consul General, and Director, UK Trade and Investment, Canada; Martine Irman, Vice-Chair, TD Securities; Philip Deck, Executive Chair, MKS Inc.; Dr. Jennifer Jeffs, President, Canadian International Council, and Senior Fellow, Centre for International Governance Innovation; and Craig Brown, Director, The Empire Club of Canada, and Partner, Fasken Martineau LLP.

Introduction by Nicholas Chambers

Introduction

As the holiday season approaches, our attention turns naturally to the home front. Accordingly, my comments this afternoon will focus on households. I would like to concentrate in particular on the implications of Canadian household finances for financial stability in our country.

I spoke here in Toronto a year ago, almost to the day. Then, the global financial sector crisis was buffeting the real economy. Businesses were postponing large investments and households were hesitating over major purchases. It was clear then that 2009 would be a difficult year, and so it has proved. With more than 400,000 jobs lost and a \$30-billion fall in output, the Canadian economy has suffered a deep, albeit brief, recession.

Today, the outlook has improved. While significant fragilities remain, the global economic recovery is now supported by several factors. First, feedback between financial markets and the real economy has reversed direction. In most major economies, the inventory cycle has turned and housing sectors are stabilizing. In addition, considerable fiscal expansion and monetary stimulus are supporting domestic demand.

Nonetheless, the bank expects underlying private demand in many economies to recover only slowly, as significant balance sheet and structural adjustments have yet to run their course. In particular, the rebound in U.S. consumption is projected to be more moderate than in previous cycles. This will have direct implications for Canada. While the Canadian economy will likely grow faster than the other G-7 countries next year, the bank expects our recovery to be more protracted and more reliant on domestic demand than usual. In the near term, Canada will grow despite—not because of—the pace of external activity.

The behaviour of Canadian households will thus be particularly important. Before turning to that in more detail, I would like to briefly review the challenges facing U.S. households, both for their direct impact on Canada and for the insights they offer for financial stability.

U.S. Household Sector

For a generation, U.S. households increasingly “saved” through capital appreciation rather than from current income. Over the last three decades, U.S. consumer spending grew substantially faster than national income, driving the ratio of consumption to GDP from 62 per cent to a record 70 per cent. In the same period, the personal savings rate fell from 11 per cent of disposable income to 1 per cent, while household debt doubled from 84 per cent of disposable income to 165 per cent.

Financial innovations, including home-equity loans and securitization, drove these trends. Initially, they increased financial-system efficiency, diversified risk, and smoothed consumption. Over time, however, these financial technologies were applied increasingly indiscriminately. Prudence gave way to exuberance to the extent that the sub-prime mortgage market became a mainstay of the expansion. When the U.S. housing bubble collapsed under its own weight, households with the least resilience were the hardest hit.

An important lesson of the American experience was that the costs were not confined to the most vulnerable households. In a now-familiar chain, problems in sub-prime quickly spread to prime mortgages, structured products in general, core-funding markets, and, ultimately, the capital bases of most major financial institutions. Eventually, virtually every financial asset in the world was repriced. Financial stability is as much about linkages as it is about specific risks. Shocks can have large, unanticipated consequences.

A lengthy period of adjustment for the U.S. consumer has just begun. A decline of roughly 30 per cent in wealth has promoted a quadrupling of the U.S. personal savings rate to 4.5 per cent. Nonetheless, household debt levels have not fallen substantially and consumer spending as a share of GDP actually rose to a new high of 71 per cent in the third quarter. Given the historic declines in net worth and the need to save for retirement, it appears clear that U.S. household savings need to remain elevated for an extended period of time.

The new equilibrium for household savings will depend on multiple factors, including wealth effects, risk aversion, the evolution of the financial system, the employment outlook, and the credibility of fiscal policy. The bank currently projects that the U.S. personal savings rate will average around 5.5 per cent over the next two years. This judgment is consistent with ultimately stabilizing the U.S. net foreign liability position and rebuilding U.S. household wealth.

This sustained, a higher savings rate will produce an historically weak recovery in U.S. consumer spending and accounts for the bank's relatively subdued forecast for overall U.S. economic growth.

Canada's Household Sector

Canadian household finances were in better shape going into the crisis than those of Americans. The Canadian personal savings rate was higher and household debt was lower. The ratio of consumer spending to GDP, at 55 per cent, was below the longer-term average in Canada. As a consequence, when the crisis struck, Canadian households were less vulnerable.

Moreover, throughout the downturn, Canadian labour and housing markets held up better, meaning that the incomes and net worth of Canadians were not as hard hit as those of Americans. So, while there is no doubt the financial crisis and accompanying recession have been

painful here, Canadians have had less need to increase savings to restore their balance sheets.

Still, Canadians have saved more. The personal savings rate in this country rose to an eight-year high of 5.5 per cent in the second quarter. The bank projects that this rate will moderate only slightly over the medium term. We view the sharp increases in household savings as largely precautionary, reflecting uncertainty about the economic outlook and financial conditions.

As the economy begins to grow again and confidence is gradually restored, we expect that some of these precautionary savings will be unwound, and that some consumers will take further advantage of unusually low borrowing rates. Indeed, our current stimulative monetary policy is meant, in part, to encourage such behaviour. Stronger growth in domestic consumption will be necessary to offset weak external demand in order to restore the Canadian economy to balance and inflation to target. Recent data have been consistent with these expectations.

Going forward, there are risks on both the upside and the downside to this outlook for the Canadian personal savings rate. Canadian households could remain more cautious, chastened by the recent financial and economic trauma, leading to more durably elevated savings. Some of the issues brought to the fore by the crisis, such as retirement funding, could also alter household savings behaviour over the nearer term. Over the next few days, the federal, provincial, and territorial finance ministers will meet to discuss these issues, in recognition of their importance to Canadians. Finally, more protracted U.S. and global recoveries could restrain Canadian households by affecting both the confidence and economic prospects of Canadians.

On the other hand, there is a risk that, as growth returns, the resilience of Canadian households through the crisis could lead to declines in the savings rate that

are sharper and increases in household borrowing that are larger than the bank has projected.

Whatever happens, the bank's monetary policy reaction to consumer behaviour will always be driven by its implications—taken in conjunction with all other relevant factors—for inflation over the medium-term horizon.

Households and Financial Stability in Canada

Household finances are also important for financial system stability. As was painfully learned from the U.S. experience, a stable financial system is fundamental for the effective functioning of the economy and the financial welfare of citizens.

In this regard, there are two important considerations. First, financial and price stability share common determinants but have different time horizons. Inflation continuously reflects real shocks and/or policy responses, while financial vulnerabilities are much less predictable. They develop over time and can persist for longer than expected. Simply put, behaviour consistent with price stability over the medium term could simultaneously build financial stresses over a longer horizon. Second, when evaluating the financial condition of Canadians, we need to look beyond the aggregate for possible changes in distribution of debt among households.

The Financial System Review (FSR) is a semi-annual bank publication that examines developments in the financial system and provides an analysis of policy directions in the sector. In our most recent FSR, we judge that most of the risks to the stability of the Canadian financial system have ebbed in recent months. At the same time, our assessment of the risks related to household balance sheets is that they have increased further.

As noted in the FSR, the vulnerability of Canadian households to adverse wealth and income shocks has grown in recent years. Aggregate debt levels have risen sharply relative to income. Those debt levels have contin-

ued to grow fairly rapidly this year, unusually so for a recession. For some households, this additional indebtedness has translated into increased financial stress. Personal bankruptcies in Canada rose 41 per cent in the third quarter from the same period a year ago, leaving the number of bankruptcies as a proportion of the population at its highest level since 1991. Delinquency rates on loans have risen as well, with the proportion of mortgages with payments in arrears three months or more having increased by half over the past year.

Stress Testing the Canadian Household Sector

To understand better the vulnerability of Canadian households and the consequences for financial stability, the bank undertakes regular stress tests. The June FSR reported on the potential impact of a more severe economic downturn on households. The results illustrated that a hypothetical increase in unemployment could produce loan losses for financial institutions representing about 10 per cent of their Tier 1 capital.

While the near-term risks from a further sharp deterioration in labour markets have diminished, the bank believes that overall risks to financial stability arising from the household sector have continued to increase. In particular, the combination of sustained growth of household debt relative to income and a rising-interest-rate environment could increase the vulnerability of households to an adverse shock. In the current FSR, the bank conducts stress-test scenarios to examine the potential impact of growing debt and rising interest rates on the debt-service ratio of Canadian households. We look at scenarios such as these, not because we think they are the most likely outcome, but rather to provide an assessment of downside risks that could potentially generate stress in the Canadian financial system.

The simulation generates a scenario indicating that, by the middle of 2012, almost one in ten (9.6 per cent)

Canadian households would have a debt-service ratio greater than 40 per cent, the threshold above which households are considered financially vulnerable.

Moreover, the percentage of debt owed by these vulnerable households would almost double. Both of these metrics are well above their recent peaks. While these simulation results are purely illustrative, they give pause for reflection. It would not be healthy to have almost 20 per cent of household debt extended to vulnerable households. Nor is it necessary to secure our recovery.

The risks are not isolated to the most vulnerable. A shock to economic conditions could be transmitted to the broader financial system through deterioration in the credit quality of loans to households. In such an event, increased loan-loss provisions and reduced quality of the remaining loans could lead to tighter credit conditions more broadly and, in turn, to mutually reinforcing declines in real activity and in the health of the financial sector. While the broader effects are difficult to anticipate with precision, some sectors, such as retail and housing, would likely be affected more than others. Such a shock would also affect certain segments of the capital markets, such as credit-card securitization. More fundamentally, strains on the household sector could also cause a more generalized rise in risk premia, with attendant negative implications for a variety of asset prices.

Conclusion

At present, the risks arising from the Canadian household sector are relatively low. Indeed, by some measures, Canadian household finances appear quite healthy. The current rate of mortgage arrears, for example, remains more than one-third below its peak in the early 1990s. Going into the crisis, Canadian households carried considerably less debt than their American counterparts. That remains true today. Data released Monday show that rebounding housing and financial markets increased

Canadian household net worth to 589 per cent of disposable income by the end of the third quarter, above its 10-year average.

While asset prices can rise and fall, debt endures. Moreover, the linkages between the real economy and the financial sector are complex, non-linear, and often opaque. That is why we cannot afford to be complacent. Indeed, one objective of using the FSR to profile risks to the Canadian financial system is to help prevent these risks from materializing. When risks are still manageable is precisely the best time to act. We must be vigilant, and all parties must fulfill their responsibilities.

Responsibility starts with the individual. Our advice to Canadians has been consistent. We have weathered a severe crisis—one that required extraordinary fiscal and monetary measures. Extraordinary measures are the means to an end—the return to the ordinary. Although we expect the recovery to be gradual and protracted, these measures are working. Ordinary times will eventually return and, with them, more normal interest rates and costs of borrowing. It is the responsibility of households now to ensure that in the future, when the recovery takes hold and extraordinary measures are unwound, they can still service their debts.

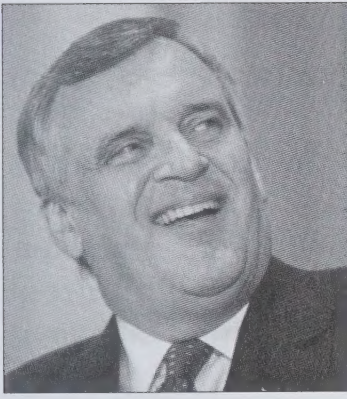
Similarly, lenders have responsibilities. Financial institutions should actively monitor risk stemming from households and not take false comfort derived from mortgage insurance and past performance of household credit. As our simulations suggest, the overall credit profile of Canadian households could well shift if debt continues to grow at current rates. The bank expects that Canada's financial institutions will continue to apply their high standards of risk management, for which they are being justly lauded the world over. Policy-makers and regulators, including the Bank of Canada, have responsibilities, as well. The bank is working intensively with the Office of the Superintendent of Financial

Institutions (OSFI) at the Basel Committee on the design of new international capital and liquidity standards. The bank collaborates closely with the Department of Finance and discusses with federal agencies, as required, to monitor evolving risks and take appropriate actions. The bank's ongoing research and analysis of the financial system, including the work I have discussed today, is an important element of our commitment to helping ensure Canada has a resilient, secure financial system that enhances the economic and financial welfare of all Canadians.

The appreciation of the meeting was expressed by Alfred Apps, President, The Empire Club of Canada, and Partner, Fasken Martineau LLP.



Mark Carney, Governor, The Bank of Canada.



December 17, 2009

The Hon. David C. Onley

Lieutenant-Governor, Province of Ontario

ANNUAL CHRISTMAS LUNCHEON

Chairman: Alfred Apps

President, The Empire Club of Canada

Head Table Guests

Verity Craig, Managing Director, CV Management, and Director, The Empire Club of Canada; Meghan McCarthy, Special Guest, Make-A-Wish Foundation; Dean McCarthy, Special Guest, Make-A-Wish Foundation; Mrs. Ruth Ann Onley; Wolfgang Vachon, Founder, Youth Connect; George L. Cooke, President and CEO, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada; Reverend Dr. John Niles, Senior Minister, St. Andrew's United Church, Markham, and Past President, The Empire Club of Canada; David Edmison, President, Martin Lucas & Seagram, and Past President, The Empire Club of Canada; Brett Boadway, Corporate Communications Specialist, The Dominion of Canada General Insurance Company; Rob Drynan, Executive Director, Camp Oochigeas; Colin Guldemann, Student, Country Day School; Miles Mindham, Volunteer, Camp Oochigeas; and Gareth Seltzer, President and CEO, TWS Private Management Inc., and Past President, The Empire Club of Canada.

Introduction by Alfred Apps

David Onley

Mr. Apps, Dr. Niles, Ms. Craig, distinguished guests, ladies and gentlemen:

As Honorary Vice-President of the Empire Club of Canada, I am delighted to be here today.

This year's luncheon celebrates volunteers, and especially those who work with children facing great challenges. Make-A-Wish Canada and Camp Oochigeas personify the virtues of hope and love that make a community strong.

Dean McCarthy and his daughter, Meghan, are here today as Make-A-Wish parent and child, while Camp Oochigeas is represented by Rob Drynan, Executive Director, and Miles Mindham, a volunteer at the camp. I am honoured to share this year's Christmas luncheon with them, and with all of you.

Among other reasons, I always enjoy this annual event on the Empire Club's calendar because it signals the winding down of another year.

The year 2009—the last year of the first decade of the 21st century—has been one of remarkable anniversaries. Among the milestones I helped to celebrate this year were:

- 175 years for the City of Toronto, the St. George's Society of Toronto and the Parkdale and Toronto horticultural societies;
- 160 years since the Royal Canadian Institute for the advancement of science was founded;
- 150 years for the running of The Queen's Plate;
- 125 years of St. John Ambulance in Canada;
- 100 years of history for the Ontario Provincial Police, the Last Post Fund, the Cadet Instructors Cadre and aviation in Canada;
- 70 years since the 1939 Royal Visit of King George VI and Queen Elizabeth;

- 60 years since the inaugural flight of the Avro C102 Jetliner;
- 50 years for Woodstock and District Developmental Services;
- 40 years for the Ontario Science Centre and L'Arche in Canada;
- 30 years for the Osgoode Society for the Writing of Canadian Legal History;
- and, last but by no means least, 25 years for Crimestoppers.

The year 2009 also marked the 70th anniversary of the outbreak of World War Two and the 56th anniversary of the cessation of hostilities in Korea.

It was a year of sorrow and joy on the military front. The sadness of repatriation ceremonies for brave lives lost in Afghanistan contrasted with the joy of the homecoming parade at Petawawa and the outpouring of support for military families at the first inaugural True Patriot Love gala.

While my focus as Lieutenant-Governor is on Ontario society as a whole, this has also been a year in which I have seen progress in the cause that is close to my heart and the over-arching theme of my mandate, namely accessibility.

Over the course of 2009, I have given dozens and dozens of speeches on accessibility to audiences around the province, tackling the many myths and misconceptions that feed perceptions about people with disabilities. I have spoken to:

- Employers, urging them to focus on ability, not disability, when they are hiring;
- Young people, about the part they can play in making their schools and social activities truly inclusive;
- Service clubs, like Rotary and Kiwanis, about ways in which they can help, by mentoring people with disabilities, for instance;

- Community and religious leaders, urging them to speak out in their turn, to raise awareness of accessibility in their constituencies; and
- People with disabilities, encouraging them to make the most of their talents and abilities. Not that I think they need that much encouragement. Last month, in Owen Sound, I met a young man in a wheelchair, who informed me that he would like to be Prime Minister. I can see no reason why he should not achieve his ambition.

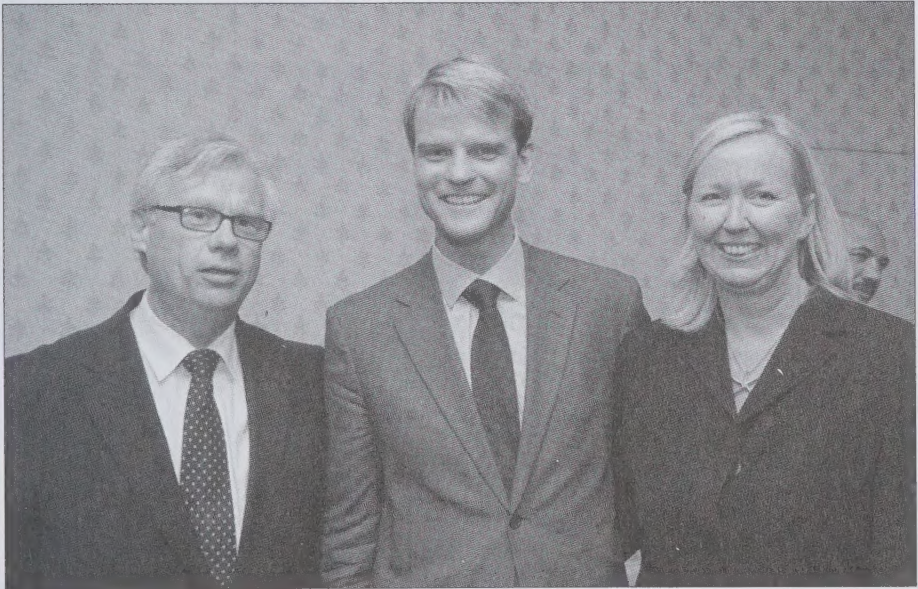
Overall, this has been a busy and fruitful year for me, as I hope it has been for all of you. But now, as the Queen's representative in Ontario, I wish you a happy holiday and a healthy New Year and I send greetings to the men and women of Canada's military forces serving in Afghanistan and around the world, and to their families here at home. My thoughts and prayers are with them at this time and especially with those who have lost loved ones.

Thank you. God bless.

The appreciation of the meeting was expressed by Gareth Seltzer, President and CEO, TWS Private Management Inc., and Past President, The Empire Club of Canada.



Preston Manning, President and CEO, Manning Centre for Building Democracy, and guest.



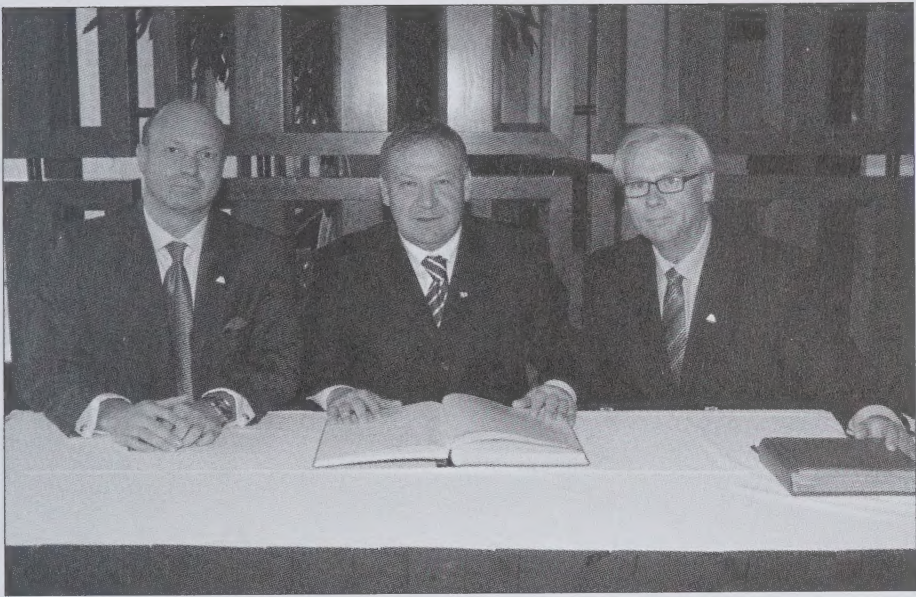
Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada, Chris Alexander, former Deputy Special Representative to the UN, Secretary General in Afghanistan, and former Canadian Ambassador to Afghanistan, and Anetta Jewell, Partner, Great Lakes Brewery, and Director, The Empire Club of Canada.



Mike Harris, former Premier, Province of Ontario, and Dr. John Niles, Senior Minister, St. Andrews United Church, and Past President, The Empire Club of Canada.



Julie Dzerowicz, Executive Director, The Empire Club of Canada, and Sir Terence Matthews, Chairman, Wesley Clover, Chairman, Mitel and March Networks, and formerly CEO and Chairman, Newbridge Networks.



John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleshman-Hillard Canada, and President, The Canadian Club of Toronto, Darrell Dexter, Premier of Nova Scotia, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



The head table assembles for Darrell Dexter, Premier of Nova Scotia.



George Cooke, President and CEO, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada, and Darrell Dexter, Premier of Nova Scotia.



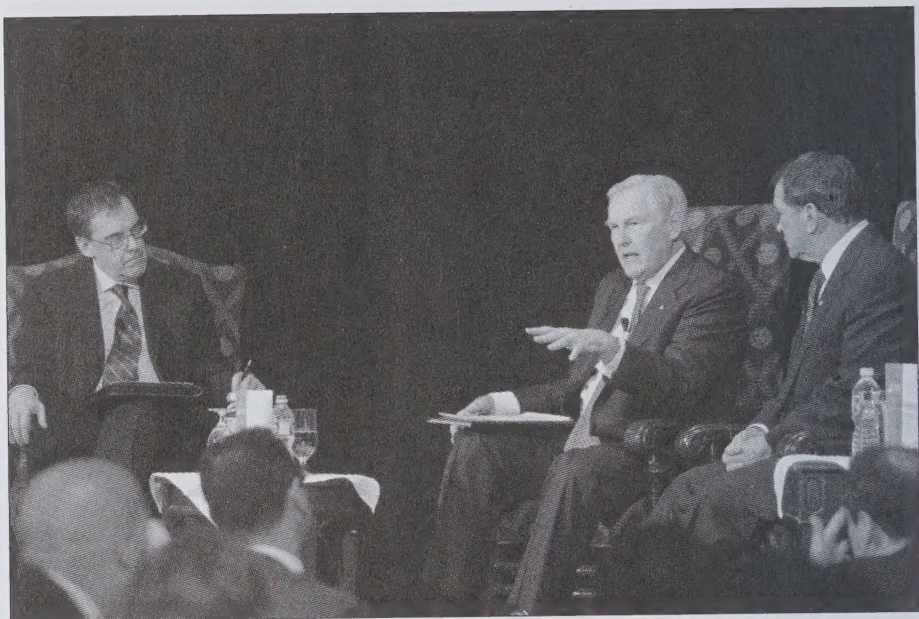
Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada, Ed Badovinac, Director, The Empire Club Foundation, Julian Falconer, Senior Partner, Falconer Charney, Trial Lawyer and Human Rights Advocate, and Dr. John Niles, Senior Minister, St. Andrews United Church, and Past President, The Empire Club of Canada.



James Hoggan, Chair, The David Suzuki Foundation and The Al Gore Climate Project.



John Walker, President and CEO, Transition Plus Sustainability Solutions Inc., and Director, The Empire Club of Canada, James Hoggan, Chair, The David Suzuki Foundation and The Al Gore Climate Project, Jocelyn Badovinac, Honorary Director, The Empire Club of Canada, and Ed Badovinac, Director, The Empire Club Foundation.



The Obama Panel: John Ibbitson, former Washington Correspondent, The Globe and Mail, The Hon. Michael Wilson, former Canadian Ambassador to the U.S.A., and The Hon. Frank McKenna, former Canadian Ambassador to the U.S.A.



Dr. John Niles, Senior Minister, St. Andrews United Church, and Past President, The Empire Club of Canada, Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada, and Julie Dzerowicz, Executive Director, The Empire Club of Canada.



Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada, David Henderson, Founder and Managing Director, XPV Capital Corporation, and Julie Dzerowicz, Executive Director, The Empire Club of Canada.



The Hon. Dwight Duncan, Ontario Minister of Finance.



The Hon. David C. Onley, OOnt, Lieutenant-Governor, Province of Ontario.



Dr. John Niles, Senior Minister, St. Andrews United Church, and Past President, The Empire Club of Canada, and David Edmison, President, Martin, Lucas & Seagram Ltd., and Past President, The Empire Club of Canada.



Mark Carney, Governor, The Bank of Canada, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



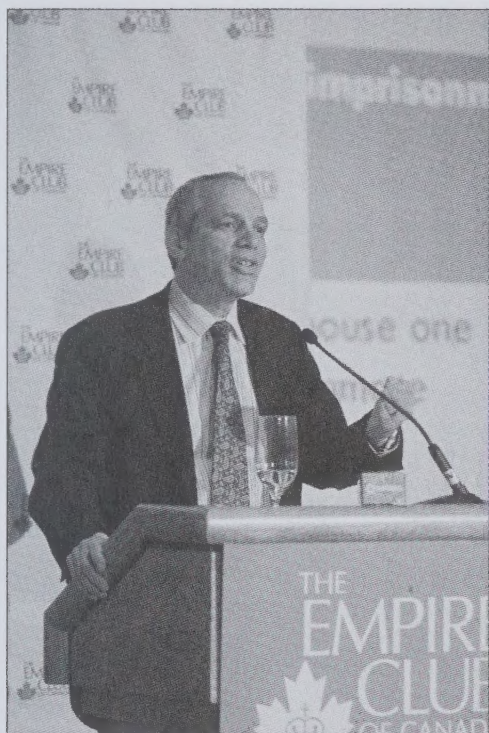
Jocelyn Badovinac, Honorary Director, The Empire Club of Canada, Kathryn Kotris, Mortgage Planner, Mortgage Architects, Julie Dzerowicz, Executive Director, The Empire Club of Canada, and Anetta Jewell, Partner, Great Lakes Brewery, and Director, The Empire Club of Canada.



Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada, and The Hon. Dwight Duncan, Ontario Minister of Finance.



Reverend Chris Miller, Minister, Oriole York Mills United Church, and Anetta Jewell, Partner, Great Lakes Brewery, and Director, The Empire Club of Canada.



Julian Falconer, Senior Partner, Falconer Charney, Trial Lawyer and Human Rights Advocate.



Don McCutchan, Director and Third Vice-President, The Empire Club of Canada, John Campion, Partner, Fasken Martineau, and Past President, The Empire Club of Canada, Jocelyn Badovinac, Honorary Director, The Empire Club of Canada, and Ed Badovinac, Director, The Empire Club Foundation.



The Directors of the Empire Club of Canada.



Gwyn Morgan, Founding President and CEO (Retired), Encana Corporation, and Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada.



Tim Reid, Director Business Development, ZED Financial Partners, and Director, The Empire Club of Canada, guest, and Gwyn Morgan, Founding President and CEO (Retired), Encana Corporation.



Past Presidents Dinner.



Past Presidents Dinner.



The head table assembles for Annette Verschuren, President and CEO, Home Depot Canada.



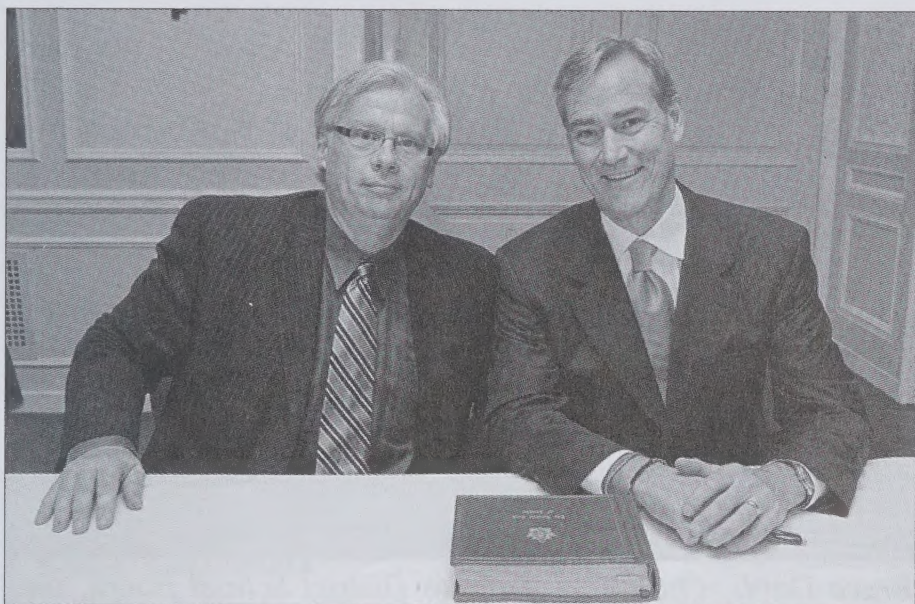
Robin Sears, Senior Partner, Navigator Ltd., and Director, The Empire Club of Canada, John Honderich, and John Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada.



*Julie Dickson, Federal
Superintendent of
Financial Institutions.*



Ambassador David Jacobson, and guest.



Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada, and Michael McCain, President and CEO, Maple Leaf Foods, and Director, Centre for Addiction and Mental Health Foundation.



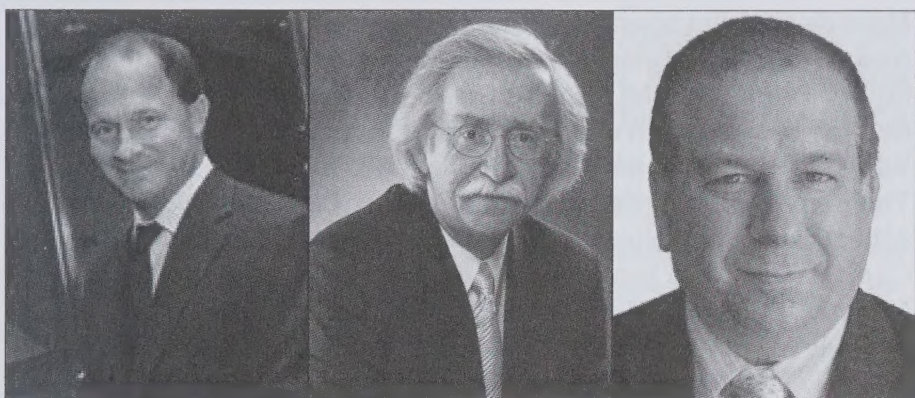
Jocelyn Badovinac, Honorary Director, The Empire Club of Canada, Ambassador David Jacobson, and Ed Badovinac, Director, The Empire Club Foundation.



Bruce Davis, Chairman, Toronto District School Board, and George Smitherman's Campaign Manager, Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada, George Smitherman, Toronto Mayoral Candidate 2010, and John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleishman-Hillard Canada, and President, The Canadian Club of Toronto.



John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleishman-Hillard Canada, and President, The Canadian Club of Toronto, George Smitherman, Toronto Mayoral Candidate 2010, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



January 7, 2010

Peter Gibson

Managing Director, Head of Portfolio Strategy in
Quantitative Research, CIBC World Markets Inc.

Nick Barisheff

President and CEO, Bullion Management Group Inc.

David Rosenberg

Chief Economist and Strategist, Gluskin Sheff &
Associates

ANNUAL INVESTMENT OUTLOOK 2010

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Margaret M. Samuel, President and CEO, Enriched Investing Incorporated, and Director, The Empire Club of Canada; W. David Wilson, Chair, Ontario Securities Commission; Jay Smith, First Vice-President and Portfolio Manager, CIBC Wood Gundy; E.C. McBurney, Chairman, GMP Capital Corporation; Morley W. Salmon, Chairman, Exempt Market Dealers Association of Canada; Bruce Shaw,

Managing Director and Co-Business Head, Institutional Sales, TD Newcrest; Mike Miller, Executive Managing Director and Head of Equity Products, BMO Capital Markets; Thomas Kloet, CEO, TMX Group; Reverend Bruce Smith, Chaplain, King-Bay Chaplaincy; William F. White, President, IBK Capital Corporation, and Director, The Empire Club of Canada; David Brown, Partner, WeirFoulds LLP; Albert Contardi, Vice-President Corporate Finance, PowerOne Capital Markets; Ian Russell, President and CEO, Investment Industry Association of Canada; James Donegan, President, OMERS Capital Markets; Courtenay Wolfe, President and CEO, Salida Capital; Brian Prill, Partner, McLean & Kerr LLP, and President, Exempt Market Dealers Association; and Tony Andrews, President, Prospectors and Developers Association of Canada.

Introduction by Alfred Apps

Peter Gibson

Thank you very much for that very nice introduction. Ladies and gentlemen and distinguished head table, it is a real privilege and an honour to speak here today, but 10 minutes for me is a challenge at the best of times. It's my goal to try to deal with one specific topic today and show how it relates to a number of different topics. The hand-out itself is quite complicated, but I'm only going to deal with a few issues contained therein.

Some years ago an e-mail was circulated that I thought was quite good that questioned the existence of Santa Claus. Some of you may have seen it and may remember it. It was estimated that Santa would have to make 822 visits per second, that he would have 1/1000th of a second to land on the roof, go down the chimney, deliver the gifts, get back up and get in the sleigh. The sleigh itself would probably weigh 353,000 tonnes, which would be roughly four times the weight of the Queen Elizabeth II. Even if reindeer could fly, in order to move that amount of mass, it would require 214,000 reindeer. It would have to travel at 650 miles per second, which is roughly 3,000 times the speed of sound. Unfortunately, the lead reindeer

would absorb roughly 14.3 quintillion joules of energy per second each, which means that after some deafening sonic booms, they would vaporize within 4/1000ths of a second. The conclusion was that if Santa Claus did exist... I don't want to disappoint you. I'll stop right there.

My point is that there are some things that are just immutable principles. I think with respect to capital markets, there's one in particular which seems to dominate everything else in this world, the link with interest rates. It may come as a surprise to some of you, or maybe it doesn't, since the low in the stock market in 1998, the S&P 500 has averaged about a 1.44 per cent per annum rate of return before inflation, meaning that after inflation there is essentially no return. That's since the low in 1998.

However, since then, the stock market has risen 57 per cent, fallen 50 per cent, risen 94 per cent, fallen 57 per cent and then risen 70 per cent. Two of the five largest stock market collapses in the last 159 years have occurred since the year 2000. We have for all intents and purposes been in a bear market since the year 1998, a world of very low returns and very high volatility. You can make a lot of money in this environment, but I think that it's very important to understand the principles, which govern investment timing. For me, the most important one probably is the level of the bond yield. Clearly every one of those rallies or declines was highly significant to your investment performance, but at the end of the day, the ability to determine whether or not you should enter or exit the market is paramount.

The root cause of this problem is too much debt and not just too much government debt, but rather too much government and consumer debt. Essentially, when you reach this level, and it's rare for both governments and consumers, the bond market gains a stranglehold over Fed policy. The bond market dictates interest-rate policy. The Fed would never, of course, admit it, but there's only

so much they can do in the context of the level of interest rates.

We started the 1970s through a period of secular inflation, long-term upward trends in inflation. From 1980 until 1998 I would argue we were in a world of disinflation, that is over time lower levels of inflation. But then since 1998, I would argue we've teetered on the edge of deflation, a generalized decline in prices and this is essentially what the Fed has tried to manage, which is why we've experienced so much volatility in capital markets.

First of all, in the period 1948 to 1998, when interest rates were falling, generally that was good for stock prices. Lower interest rates meant bonds, fixed income investments, were less competitive with stocks; stocks generally rose when interest rates fell. Generally speaking, that's true. For almost every calendar year, that would be true. However, in order to keep the bond market happy, we have to deliver to the bond market lower levels of inflation consistently over time in order to sustain the downward trend in interest rates because none of you, if you individually held the \$13 trillion of government debt, would accept a secular upper trend in interest rates because you know the value of your investment would be diminished. So that trend in interest rates generally has to fall over time, as I'll show you in a second.

However, there's a level of interest rates, the 10-year U.S. Treasury yield, probably in the range of 3.5–4 per cent, where we can deliver that next new low in interest rates to the debt markets to keep bond investors happy, but unfortunately the economy may be dangerously weak in the process. That's where we are. In order to satisfy the bond market, we have to pay a price in the real economy unless we have some massive productivity-growth breakthrough. We've often joked that that would have to be cold fusion. However, short of cold fusion, we argue that you'd have to sustain that downward trend and there is the risk the economy would become dangerously weak.

So you actually enter a world where bond yields will fall, but stock prices fall anyway.

As a consequence, you end up with lower overall returns and worse, higher volatility. But I want to move on quickly and get to the most important aspects of this.

The risk always is this. If inflation ever appears to be a real problem for debt markets the bond investors would flee from debt markets. Let's say you sold 20 per cent of the \$13-plus trillion of U.S. government debt, you're talking about trillions of dollars into the overnight market and bond yields would escalate dramatically. The Fed knows all of this because there's a very clear history of six times over the last 300 years amongst the history of Britain, France and the United States where bond yields spike upwards. They skyrocket and the entire financial system collapses. It'd be easy to understand how that happens today. The bond yield rises, there's a panic in debt markets. Obviously as bond yields rise, they eventually become too competitive for stocks. The stock market sells off like 1987 or worse. Mortgage rates rise linked to the general trend in interest rates, housing prices fall, heavily indebted consumers panic, and we get into trouble. The Fed knows this, hence they can let the bond yield rise up to a point, but in general, they're trying to manage it lower over time, but obviously it cannot fall indefinitely.

At the other end of this is the risk that there becomes a time when you can't afford your debt and therefore interest rates rise while the economy actually gets softer or perhaps interest rates don't fall while the economy gets softer as you get to very low levels of interest rates. That is always the challenge. So what the Fed does is they try to manage the interest rate pattern in a very specific fashion. What's interesting about it—I find it very interesting—is that the pattern itself lines up by decade over the last three decades in terms of the years. For example, we had recessions in all or part of 1981, 1991, 2001. We had economic recoveries that got started in

1983, 1993, 2003. The Fed goes through a very subtle process of normalizing the yield curve. In 1984, 1994, 2004, as rare as it is, the years lined up again. Then the Fed, after a couple of years of accelerating economic growth, tightened until they broke something. It's not a coincidence. They broke something in '87/88, '97/98, '07/08. When they break something, the bond yield collapses. That's the key. Then the response is always the same. They come at it with massive fiscal stimulus or monetary stimulus when it is available, but they do whatever they can to restart the cycle. Of course, in 1989/90, 1999/2000 and again in '09 into 2010, I would argue, you get a rebound in the stock market and it's coincident with the rise in bond yields. How far that rise in bond yields goes is what will determine how long the Fed has before they're forced to tighten again. That pattern is very clear and that's really what I want to speak to.

Essentially what happens is the bond yield is seesawing between it's too high and therefore you want to get out of stocks and hide in bonds or it's low enough and now's the time to hide in stocks and avoid bonds or invest in stocks. That range, for me, is roughly at the too-high end 4.3-4.6 on the 10-year U.S. Treasury. A level below 4 is not a bad place for the Fed; 3.5 would be better. At the very low end 3.3 or 2.5, that's extremely attractive for the Fed. We have been since 1998 in a bear market. It's likely that this is a bear market rally. I am still optimistic about where this goes, but at the end of the day, it's that level of bond yields which is going to dominate everything for me. It's linked in a very important way.

The level of bond yields, if satisfactory, gives the Federal Reserve the opportunity to pursue more credit easing. It gives them the opportunity to devalue the U.S. dollar further, thereby driving the Canadian dollar up more. Because the U.S. dollar is a reserve currency, a devaluation of that means that gold as a currency proxy can go higher. The longer the bond yield is in the optimal

range, the further they're going to push their credit easing and try to intentionally devalue the U.S. dollar and level the playing field with China in the process, probably in general driving commodity prices up, but it all comes back to this. I believe, and this is important, it's based on a theory called the Triangle of Impossibility. A nation can control two of the following three things, but not all three. They can fix their currency by controlling their capital flows, but they can't then maintain an independent monetary policy, which means as long as the bond yield is in the right range, credit easing on the part of the U.S. means that China's forced to ease. As China's forced to ease, they create a real estate bubble. That's clearly underway as far as we can tell.

Now I'm going to ask if you would go back to the second slide because this is where I want to focus my attention for a minute. Here's the point. The dash line in the middle of this graph represents the trend that I argue has to be maintained in bond yields. Clearly bond yields cannot fall indefinitely. Some 15 years ago or longer we used to say the 10-year U.S. Treasury would get to 2.7 by the year 2007. We didn't get it in '07, but we got there in '08 and for all the same reasons.

That downward trend can't be maintained indefinitely. It's unlikely the 10-year U.S. Treasury will fall below 2 per cent. It may be necessary for us to have deflation before the bond yield will fall below 2, but that's the downward trend. You generally have to hit that every couple of years.

If you look at the B that's listed there for 'buy' in 1998, at that time we're at a floor on bond yields. Here's the interesting thing. Look at the behaviour between the bond yield and the S&P from 1998 forward. In general, when the stock market is rising, the bond yield is rising. When it gets to our ceiling, you turn the corner. Now the bond yield is falling, the stock market is falling. These two have moved almost in lockstep for a large part of the last

10 years. That level of the bond yield, whether you're at the floor or the ceiling, whether it's low enough or too high, is what I think largely defines the rate of return on the market. So for example, the buy-and-hold return on the stock market was 1.44 per cent per annum. The buy-and-hold return on bonds from 1998 was 6.64 per cent per annum. Look at the rallies, up 57 per cent, down 50, up 94. You can see that across the top of the page. Those are the moves in the stock market. When the stock market is collapsing, the bond market is producing a significant positive return. The behaviour of the stock market is driven by this relationship largely. In fact, if you were to draw comparisons between '97/98, you have the Southeast Asian banking crisis and the L-T Capital crisis, then the Fed response and the bond yield moves to the ceiling.

Where I'm focused is in that 1999/2000 timeframe where the bond yield just moves relentlessly towards the ceiling. The bottom line is this. If that bond yield can remain at the 3.5 per cent level or below 4, then I believe the Fed will pursue further credit easing. That credit easing is the monetarization of their debt. It's the most unbelievable thing that the Federal Reserve prints money to buy U.S. Treasury bonds. One arm of government is buying bonds from another arm of government.

Ponzi scheme may be too strong a term, but the reality is that it seems a little conspicuous to me. The bottom line is they will pursue that as long as they can. They have the ability to do that because they can borrow in their own currency. Then it forces China to ease aggressively in the process, probably underpinning a real estate crisis. Where this probably leads, and I'm going to go out maybe a little further than I planned today is this. If China in the next decade has its own real estate and banking crisis the way Japan did in the 1990s, then it's likely that the rate structure in China falls to very low levels vis-à-vis the U.S., which means where we once had a yen carry trade, we

will now have a yuan carry trade, meaning that it would be beneficial to borrow in China to lend to the Treasury market.

After this backup that I believe is taking place during the course of this year, while the stock market rallies further at the same time and the length of that rally is dependent on how long it takes for me to get to that 4.3–4.6 level, as long as that goes on and I favour stocks, I should do well there. But if I do hit that ceiling, I want to reverse course. I want to look to the U.S. dollar at that point and ask myself, “Is the U.S. dollar strengthening now as the Fed tightens?” Because if they are, then they’re setting China up probably for the end of their real estate crisis and therefore the beginning of an artificially low-rate structure in China, which supports an artificially low-rate structure in the U.S. next decade. That would be what we used to refer to as painted rates.

There was a time when I was very young when banks used to paint their interest rate postings on the glass of their windows. If you want to get out of a debt crisis, you cannot inflate it away; you do not want to use deflation. You need low interest rates, stable and low interest rates, for a protracted period of time and significant productivity growth.

So I’ve tried to link that interest-rate picture with the outlook that we have for gold and oil. The targets are shown in the back, but it all comes back to the same thing. Where’s the bond yield, 3.5, below 4, or is it pushing too high in that range?

Thank you very, very much for the privilege of speaking today. I greatly appreciate it.

Nick Barisheff

Good afternoon. As always, it is a privilege to speak at the Empire Club.

Each year for the past three years, I have returned to share perceptions about the precious metals industry and specifically about gold. Generally, this forces me to step back and assess the previous year's events and then to speculate about what they may indicate for the coming year. Choosing the seminal events this year has been more difficult than usual. Lately the pace of gold-related news has accelerated exponentially with gold's rising price. While 2009 was an exciting year for gold, setting a new average high of \$1,088, 2010 promises to be even more exciting.

In 2009, gold resumed its historical monetary role—as the anti-currency. Therefore, the influences and events that affect its price are not simple commodity supply/demand fundamentals, but the more complex global monetary issues.

To summarize some of the important key events, I thought it would help to separate them into three categories.

First, there are the obvious events—those whose implications for gold are self-evident.

Second, there are the events that require some interpretation and, finally, there are the events that we might call “incipient.” These events and stories are in their early stages of development. They may amount to nothing, or they may develop into tectonic forces that completely disrupt the gold-related financial landscape.

It is more than a year since Wall Street made some very bad bets that resulted in unprecedented losses, losses that were passed on to the American taxpayer. For their incompetence and greed, most of the company heads responsible were rewarded with generous severance packages, or with new jobs commensurate in pay and status to the ones they left behind. Even more surprising, perhaps, is that one year later many of these people continue to advise the U.S. government's financial policy makers. My associate, trend analyst Richard Karn, likens

this particular situation to a group of chickens getting together and consulting with the foxes about a problem that is plaguing their community—the rapidly decreasing chicken population. Since the same key figures remain firmly in charge of U.S. fiscal policy, we can assume the status quo will continue until the ship finally hits the iceberg.

So let's start with the obvious gold events of the past year. It was the first time in 20 years that gold purchases for investment purposes outpaced gold purchases for jewellery demand.

However, in terms of significance, central-bank buying of gold this past year upstaged all other events. For the first time in over 20 years, central banks became net buyers rather than net sellers of gold. This is a watershed event.

India's central bank purchase of over 200 tonnes of IMF gold in the fall of 2009 demonstrated that large central banks were willing to pay the market price for gold. This removed the concern that official sector sales could cut short any meaningful rally. Although the central banks have been selling less gold each year lately, the threat of IMF sales have continued to weigh on the market. Russia and China further dispelled this fear with the disclosure that they too have added 130 and 454 tonnes respectively. Several smaller central banks such as those in Sri Lanka and Maritius also added to their gold reserves. Therefore, central-bank buying was clearly the significant gold event of 2009 and will likely continue to be in 2010.

The next level of news events had implications that might not have been so obvious at first glance. On October 6, Robert Fisk, a veteran Middle East correspondent writing for the U.K.'s Independent, published an article entitled "The Demise of the Dollar." The article described how "Arab states have launched secret moves with China, Russia and France to stop using the U.S. currency for oil trading." Although the central banks

immediately rejected these rumours, the market treated their denials as a clear admission of guilt and gold broke through year-long resistance at \$1,020 an ounce into an entirely new trading range that day.

The Iranian oil bourse, which allows oil sales in several currencies except the U.S. dollar, is another indication that this trend will continue. In addition, the U.S.'s greatest supporter of the petrodollar, Saudi Arabia, announced that it would no longer trade oil futures on the NYMEX. And on October 19 a related event occurred that received almost no mainstream press coverage; in fact, the only mention I could find of this story at first was at Al Jazeera Online. This was an agreement between 10 member states in Central and South America and the Caribbean to use the sucre rather than the dollar for intra-regional trade. Venezuela, one of the West's largest oil suppliers, is also a member of this new alliance.

This trend is significant to gold because, since 1973, the U.S. has been able to accumulate huge deficits thanks to an agreement with OPEC to price oil in dollars exclusively. This system worked until the 2008 financial crisis, which many felt weakened the dollar's inherent worth beyond repair. The petrodollar experiment, which started in 1971 with the removal of the dollar's peg to gold and continued in 1973 when the dollar was essentially backed with oil, is coming to an end after only 36 years. However, given the weakness of other currencies and the fact that no other paper currency currently threatens to replace the U.S. dollar, the process may take years to complete. The end of the petrodollar's hegemony, which is inevitable in my opinion, will have significant implications for gold.

Another event with implications that may require some extrapolation was the move by the Chinese government to encourage and facilitate gold buying by the Chinese public. China watchers know the Chinese have a long-term love for gold. In fact, on December 9, Reuters

announced that China had surpassed India as the world's largest gold buyer for the first time in recorded history. The Chinese have also demonstrated a strong propensity for saving. With their government making no secret of its displeasure with the U.S. dollar, and with few other safe investment options available, the Chinese public could provide the fuel to move the gold price to new highs. One ounce purchased by each of the 80 million middle-class Chinese would equate to 2,500 tonnes of gold. It is important to remember that during the last gold bull, the Chinese public was unable to participate. This is a story that definitely bears watching.

Finally, in the third category, is the news we might compare to the first spark of a match that either extinguishes uneventfully or ignites a raging, out-of-control forest fire. Most of us in the gold industry have discovered that we ignore these flickers at our own peril. Many of the stories that started as hints or rumours a few years ago are now accepted as fact. The first of these issues we are watching is the imbalance between gold derivatives and paper proxies and the amount of physical gold in existence. This is important because despite its best efforts, Wall Street still cannot print gold.

Since almost all the gold ever mined remains in existence and gold reserves and production estimates are monitored meticulously, such discrepancies will show up faster in the relatively small gold market than they might with other commodities. As Wall Street churns out new gold investment vehicles, people are starting to do the math. If it becomes apparent that financial institutions have sold more paper gold than actually exists in physical form, then the price of paper gold and physical gold could diverge.

This year, many analysts began to apply increased scrutiny to the gold and silver exchange-traded funds (ETFs). In mid-July, hedge-fund giant Greenlight Capital announced it was moving assets out of the world's largest

gold ETF—SPDR Gold Shares—and into physical gold. Greenlight is an industry leader whose movements are carefully studied and often emulated. Although Greenlight's manager, David Einhorn, claimed it was cheaper to own and store physical gold than it was to pay the ETF fees, the fact that a major, industry-leading fund would move to physical bullion set off many alarm bells.

Since ETFs do not actually purchase their assets, there is nothing prohibiting Authorized Participants from contributing baskets of borrowed gold. The amount of borrowed gold held by ETFs is a matter of speculation. With multiple claims on the bullion, ETF investors may suffer unexpected losses under stress conditions when they need their gold the most.

So with these events of 2009 in mind, I am often asked, "How high might the price of gold go?"

Let's look at some figures.

We know that the U.S. must refinance at least \$2 trillion of debt in 2010. They can raise this money in one of three ways: through the sale of bonds, through increased taxation, or through monetization by the Federal Reserve. Foreign investors showed decreasing appetite for U.S. treasuries in 2009. Rising unemployment along with an aging population makes increased taxation a poor option. Therefore, the U.S. Fed will be forced to monetize the ballooning debt, further eroding confidence in the dollar as the world's reserve currency.

This will encourage central bankers, especially those of the developing countries, to accelerate their accumulation of gold. Stephen Jen, a managing director at hedge fund BlueGold Capital and an expert on sovereign wealth funds from his days at Morgan Stanley, estimates that the percentage of gold held by the Chinese, Indian and Russian central banks is just 2.2 per cent. This compares with 38 per cent held by Western central banks. According to Jen, they would have to buy \$115 billion worth of gold at current prices to raise their bullion to

just 5 per cent of total reserves, and \$700 billions' worth to reach just half of Western levels.

Along with many others in the gold industry, we have noticed that fund managers are starting to buy gold as long-term insurance, which they intend to hold for several years. By one estimate, if the world's pension funds and hedge funds moved only 5 per cent of their assets into gold, which these days seems quite conservative, gold would trade above \$5,000. With leading wealth managers such as David Einhorn, John Paulson and Paul Tudor Jones allocating significant amounts of their portfolios to gold, the process may have already begun.

In conclusion, the events of the past year bode well for the price of gold in 2010. At the recent highs of \$1,200 many thought that gold was overbought. For those who feel this way, I would like to close with some recent words from investment legend Richard Russell who said, "If gold is going parabolic, then there's no such thing as 'overbought.'" Almost any of the events of 2009 I have highlighted could trigger such a parabolic rise. Right now the Chinese and Indian public, the non-Western central banks, the sovereign wealth funds, the pension funds and the hedge funds of the world are all looking for ways to increase their long-term gold holdings. The pull-back from the recent highs of \$1,200 seems to be over, providing an attractive entry point for investors. In 2010 we will likely see prices rise to at least \$1,300 to \$1,500.

It is important to understand that this isn't a typical bull market. Unless governments around the world stop creating massive amounts of new money, the price of gold will continue to rise.

There is a famous investment axiom that states, "Now is always the most difficult time to invest." To that I would add, "But now is also the best time to insure the wealth we have accumulated is protected through the ownership of gold."

Thank you.

David Rosenberg

Thanks very much and Happy New Year. They had me speak last so you could digest your meal. It used to be that in the past seven years I would come to events like this and I would say, "Gee, it's good to be back," but boy it's really good to be back for good. I should just say that I have just come back from a rare two-week vacation. I come back and I find that most people are asking me more about my vacation than my outlook. Maybe they're scared about what I'm going to say. The answer to the question is that the vacation was great. "Where did you go?" "I went to the Holy Land." "Oh really, you went to the Holy Land. What did you visit the most?" "I went to the Western Wall four different times." "You went to the Western Wall four different times? Why would you do that?" The answer to the question is simply that when you've been bearish in a 70-per-cent rally, the compulsion to pray is pretty strong.

I'm going to try my best in 10 minutes to get through my slide deck. Maybe I'm being a little more ambitious than Peter. I don't normally bring slides to an event like this, but if I didn't bring them, you wouldn't believe a word I'm going to say. Why confuse the issue with facts? I think we need the facts.

All I'll say is this: a 70-per-cent rally can really do a lot of unbelievable things to your mindset because we could look at valuation and look at the fundamentals, look at the fund flows, but there's so much psychology in the market. Let's not forget exactly where we were a year ago. We're in what I would call a post-bubble credit collapse. We've seen a tremendous government policy response. All I can tell you is that most of the strategists and the economists that come into our offices at Gluskin Sheff go through their pitch and what I find is that they still look at the economy and the capital markets through the lens of the classic business cycle of the post-1945 world—basically

contractions in GDP related to inflation, Fed tightening of manufacturing inventories, but in the context of what was a secular credit expansion, starting at the end of the Second World War, starting with the first credit card. Do you remember that, Diner's Club, one card per family? How novel was that? Of course it went on through securitization, the breakdown of Glass-Steagall, so on and so forth, and then what happened with the mortgage market.

We have to go back before 1945 to understand the true contours of what's going to lie ahead. Bear market rallies are going to come and they're going to go. This is still, in my opinion, a very significant bear market rally, but we know what happened in Japan. I'm not going to say this is exactly like Japan, but Japan had four of these bear market rallies of this magnitude. You want to go crazy and add up all the rally points in the past 20 years in Japan and they come to almost 300,000. If you could trade those, God bless you. The market's still down 70 per cent from where it was back then.

This is not the onset of a secular bull market. In a secular bull market you buy the dips. This is something a little bit different. So just remember my favourite Supertramp album, "Crisis." What crisis? This reminds me how people have forgotten where we were a year ago.

Bruce Leboff, Jeremy Freedman, Bill Webb and I were in Montreal seeing clients and prospects. This was about four months ago. There's this high-net-worth prospect, who has just sold his business and is sitting on a pile of dough. Those are the sorts of people we want to meet. He leans over to me and says, "Can you guys guarantee me 9 per cent per year?" I just tried to say politely, "Sir, the last person that tried to do that is in jail right now. You do know that." Eight months ago it was, "Could you do me better than 20 basis points on my savings account?" That's exactly where we've come.

I'm going to tell you I continue to adhere to Bob Farrell. According to Bob Farrell, the Dean of Merrill Research for decades, there are 10 market rules to remember. These are the 10 commandments to investing. I'm not going to go through every one because we'll be ordering pizza at midnight, but I'll focus on rule numbers eight and nine. There are three phases to every market. This is why the presentation is called focus on the forest, not the trees. There's a trend line and then there are the gyrations of the noise around the trend line. Sharp leg down, reflexive rebound, then the long and drawn-out fundamental down-trend to the low. We're in the fable reflexive rebound. That's where we are right now. Tread cautiously.

These bear market rallies can be very significant, no doubt about it. Rule number nine is what I'm going to talk about. It's about group think. Rule number nine is about when all the experts and forecasts agree, something else is going to happen. Then you go out to the latest Barrons poll and take a look at what everybody is bullish on. Everybody is bullish on equities and they hate treasuries. They're sort of agnostic when it comes to gold or when it comes to corporate bonds. We like to think that we're optimistic, but maybe we're masochistic. How much punishment are we going to take because it's almost amusing that the asset class today portfolio managers are most bullish on is the only asset class that lost you money in the past 10 years. The asset class that they hate the most are treasuries and they are agnostic on gold and corporate bonds. These are the parts of the market that actually did quite well.

I was Merrill Canada's Chief Economist and Strategist in Toronto until 2002. Then I became the Chief Economist in New York for Merrill Lynch. It's a good thing I got along well with Rich Bernstein. He was a closet economist; I was a closet strategist. You can take the boy out of strategy; you can't take the strategy out of the boy. What the economist has to do, of course, is to forecast the economy.

The strategist has to say, "How much of this is imbedded? How much of that economic outlook is being imbedded in valuations across different asset classes?" That's the name of the game. If you're going to be an economist and strategist, you have to have that split personality to forecast the economy then determine what's priced in. That's what we do.

We ran some simulations. We found that at the market peak in October of '07, if you were buying the stock market back then, ipso facto, you were discounting 5-per-cent real growth for the coming year. Well we got zero and the year for that we got negative. Then you go to the so-called Armageddon lows in March of last year. What's interesting is that the S&P was pricing at -2.5-per-cent growth, which, by the way, is exactly what we're going to see in 2009. It's interesting that the market, maybe at best, got undervalued for two months and that was it throughout that whole bear market. You fast forward to today and the stock market's discounting. The S&P 500 is discounting 5-per-cent growth. How do you like that after a nine-multiple-point expansion over the course of the past year?

In my own defence, I have never told people to actually run to the hills and buy a sawed-off shotgun and baked beans and a Coleman lantern at the lows, but the real Armageddon was when corporate bonds got crazy too in '07. They also priced in growth we never saw, but at the lows, corporate bonds were pricing in -10-per-cent GDP. If the S&P had gone and priced in -10 per cent, we would have bottomed at 325 not 666.

Let's fast forward to today. Today the low-hanging fruit in corporate bonds is over, but it's priced for roughly 2.5-per-cent growth. It's not far off where I would be. It's fair value. The corporate stock market, though, is priced for 5 per cent. The way I see it is that if the stock market were pricing in where the corporate bond market is right now, the S&P would be trading close to 900, 950, not where it is today at 1150, 1160. If I'm wrong and we get the 5-per-cent

GDP growth, so much the better. Corporate spreads will come in another 75 basis points. I still think risk for reward is the place where you want to be.

We're talking about secular trends. We're talking about secular shifts in behaviour. The lingering impact is that we have come off a massive trauma on the U.S. household sector balance sheet, the biggest balance sheet in the world. We're still struggling with this. Of course the governments cushion the blow with so much stimulus by the Fed, the Federal Housing Administration (FHA) and the Treasury. Look at that chart on household net worth, the two-years' scrolled rate of growth. Two years after the Feds cut interest rates after the last cycle, we were already back above the zero line. Look at all the monumental stimulus and we've just basically hooked up. The level of household net worth is still \$13 trillion lower today than it was two years ago. That's like 10 Canadian economies. There's going to be a lagged impact in terms of how people behave in the future. There's going to be a lagged impact from that trauma on the balance sheet. You have to tack on the demographics.

This is the first time we had a consumer recession in the U.S. where the median age of the boomer, that 78 million pig in a python that's driven everything in the past five decades from capital markets to politics to the economy, is 52 going on 53. The median boomer is going to his financial advisor and seeing two pieces of paper that scare the wits out of him. He's seeing his portfolio's down 30 per cent from where it was two years ago and then he's seeing something that's even scarier, which is the life expectancy table. "My God, I'm 52. I'm going to live to be 82. How bad is that and I haven't even saved anything for my retirement?"

When you talk about secular shifts, look at this chart. This chart is a simple chart. The U.S. has lost eight million jobs. Usually it loses three million. It lost eight million jobs the past two years. If you're under the age of 55, employ-

ment's down nine million. If you're over the age of 55, the only component of the population that got a job, a million of you got a job. What's that all about? Basically people saw their wealth destroyed. It's actually quite a sad story, but it's a real sociological story. This is a very important story because people are coming back into the labour market, people who thought they could retire with a retirement nest egg. At one point seven years ago, it was the NASDAQ nest egg, then the viable retirement asset became residential real estate. Now it's just a ball and chain. These people who thought they could retire at 55 are having to come back into the labour market. They're not old people but they left the labour force, and now they're coming back in. It's not everybody, but in the markets it's always at the margin. Why are they coming back in? It's because they need the income. That's the economist talking.

Then there's the strategist part saying, "Well, if they're coming back in the labour market for income, won't they be treating their investments that way?" Lo and behold, I can understand what's happening out there. This is unbelievable. This, again, is a secular shift in attitudes towards your portfolio. This is the ICI data coming out of the States. Despite a 70-per-cent rally, the retail investor's been selling into it. Some bozos say, "That's a bullish sign because it's a contrarian sign that the individual investor is a lagging indicator." I'm not so sure this time that's going to be the case. This has been basically nine months, 70 per cent. Even last week, U.S. retail investors were still selling and they're not going into ETFs. Look what they're buying. They're buying bonds, not just bonds, but hybrids, REITs, dividends. They're treating their entry into the labour market to garner income much in the same way that they're treating their portfolio.

When you take a look at the asset mix in the U.S., it's a \$50-trillion balance sheet. With all due respect to the Chinese Foreign Exchange Reserves, this is still a lot big-

ger. This is going to continue. Is this trend towards income as opposed to strictly capital appreciation and equity going to continue? Absolutely. These are secular shifts. Take a look at the asset mix. Over 25 per cent is still in equities after the bear market. Over 25 per cent of the household balance sheet is still in residential real estate after the detonation. Then you've got cash around 12 per cent; you've got consumer durables, your Monet, your Manet, your third suburban SUV with the big wheel, and your silverware from your first marriage, but you see that less than 7 per cent of the portfolio is in fixed income. It's my contention that that's the part of the portfolio that's going to expand the most over the course of the next five to 10 years. I'm very bullish on anything that can derive an income stream.

Let's talk about some of the things I like beyond that. I guess maybe we've got a bit of a consensus here. I should be nervous maybe, but in terms of gold, in terms of the U.S. dollar, I share the same concerns. When people talk about gold, how do you value gold? You can't do a dividend discount model or there's no income stream. What do you do with gold? It's a store value. Think of it as a currency. It's a currency. That's what it is. We measure it in dollars. "What's the price of gold doing?" I don't think you're going to answer the question in barrels of oil. It's always measured in U.S. dollars. Gold is a currency. It might not be a classic means of exchange today. It's a currency.

Let's take a look at relevant supply and demand. As an economist, what I can assure you is that if you get the supply curve or the demand curve it's going to give you something called a price. Let's take a look at the U.S. monetary base. Let's take a look at the money supply. I look at Ben Bernanke. Ben Bernanke reminds me of Jerry Lewis in "The Nutty Professor." The U.S. is a 233-year-old country. Half the monetary base has been created since Jerry Lewis took over in 2006. It's pretty easy. You have 150-per-

cent growth in monetary base and gold production peaked. Monetary production peaked a decade ago and it's not going up. Is it a hedge against inflation? Is it a hedge against deflation? Why complicate it? It's just about supply and demand. Make no mistake, Bernanke is not going to be pulling the plug any time soon.

We know what the production outlook is of gold. It is relatively stable, but what's the production outlook of currency? That's a good question. I'm bearish on U.S. equities. Equities are an asset class. There are some things that I do like. I like commodities. This chart shows you the Commodity Research Bureau (CRB). In the context of the worst recession since the '30s, the CRB had the temerity to bottom over peaks in previous cycles. A year ago I packed out my back pocket. That is the sign of a secular bull market. We actually bottomed over peaks in previous cycles telling you that the secular supply and demand curves are shifting. It's not going to be a straight line, but commodities are, I think, overall a good place to be. We used to laugh at the people calling for global decoupling. They were idiots. Maybe they weren't idiots. When you take a look, the U.S. was in a recession, a fractional recession from December '07 to September '08 before it even collapsed. The U.S. was negative growth. The rest of the world was doing okay. Take a look at the Canadian dollar. The TSX, the CRB index, oil, didn't start to really collapse until we were deep into the third quarter of 2008 after Lehman collapsed. Really between the time that we had Fannie and Freddie and what happened with Lehman.

The commodity call is not about the U.S. The commodity call is really about what's happening in Asia.

If the experts are right, China and India are going to lead the global economy again next year so the demand side for commodities should remain firm. I'm going to slip into Swahili in a second because I'm going really quickly.

I'll just say I don't even look at the Canadian market as a market. It's really an index when you think about it. I feel sorry for anybody that has to be hugging the Canadian market or index because it's a concentration of basically two sectors—basic materials and financials. When you take a look, the reason why Canada's outperforming the U.S. and will continue to do so, whether it's a bull market or bear market, is because we have triple the exposure to raw materials that the U.S. has. That puts the Canadian dollar in a secular bull market and it also puts the Canadian market in a secular period of out-performance, relative out-performance. You know what they say. In the land of the blind, the one-eyed man is king. Canada is the one-eyed man.

When I take a look at our exposure to commodities, I take a look at our fiscal situation. It's not pristine, but it's much better than it is south of the border, our external debt position. I've got to tell you, I've been in the business for a quarter of a century. I don't remember a time when the downside risks in Canada relative to the U.S. was as low as it is today and with an upside potential, the upside return potential higher. Whether you look political, fiscal, or financial, I don't remember a time where Canada looked this good relative to the U.S.

Just to finish off, this is the key chart. This just goes to show that even as bearish as the biggest bear could be, there's always a needle in the haystack. Canada's out-performance relative to the U.S. is about halfway through an 18-year secular cycle. From 1982 to 2000, commodities were in a bear market, the Canadian dollar was in a secular bear market and you could see there was a bull market in paper assets. That's what's mostly involved in the U.S. stock market. You can see what the U.S. stock market did against Canada. It dramatically outperformed '82 to '00. Take a look at what happened in the past nine years and the dramatic out-performance of Canada against the U.S.

My feeling is that that trend is only about halfway through its motion.

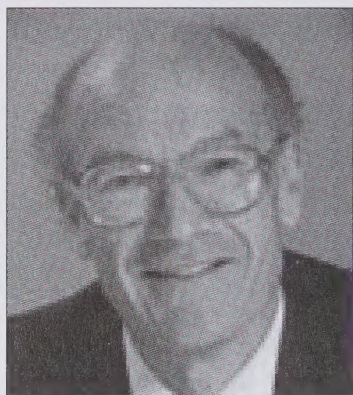
Just a final word. One of the biggest differences from going from the sell side to the buy side, and there's lots of differences, is the ability to actually fit the disclaimer with that font on one page.

Thanks for indulging me, folks.

The appreciation of the meeting was expressed by Margaret M. Samuel, President and CEO, Enriched Investing Incorporated, and Director, The Empire Club of Canada.



Dr. Paul Ekins, Director, UK Green Fiscal Commission.



January 14, 2010

Dr. Paul Ekins

Director, U.K. Green Fiscal Commission

SMART TAX REFORM: THE KEY TO A GREENER, STRONGER ECONOMY

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

John Walker, President and CEO, Transition Plus Sustainability Solutions Inc., and Director, The Empire Club of Canada; Andrew Coyne, National Editor, Macleans Magazine; John Ruffolo, Partner, Deloitte Canada; Colin Andersen, CEO, Ontario Power; Anetta Jewell, Partner, Great Lakes Brewing Co., and Director, The Empire Club of Canada; Reverend Chris Miller, Minister, Oriole York Mills United Church; Andrew Heintzman, President and CEO, Investeco Capital Corp., and Chairman, Investeco Financial Corp.; Rick Jennings, Assistant Deputy Minister, Ministry of Energy, Ontario; Pat Concessi, Partner, Deloitte Canada; and Stewart Elgie, Chair, Sustainable Prosperity, and Professor, Faculty of Law, University of Ottawa.

Introduction by Alfred Apps

Paul Ekins

Thank you very much indeed Mr. Chairman. It's obviously an enormous pleasure as well as a very great privilege to

be here. Thank you very much for coming to hear what I have to say. I'm aware that I'm standing, metaphorically at least, if not in the exact spot, where many distinguished and much more eminent people than myself have stood. I like to think that the subject of the talk, at least, is worthy of the Empire Club and of your attention.

I think that most of us are aware that we face a generational, even a millennial challenge. We have lived as a species in the belief that we could do more or less what we liked with the one planet that we have got. Let's be clear that that attitude has delivered many benefits indeed, not least among them this hall, and the kind of civilized, free existence that many of us now know.

I'm afraid that is under threat. The science of that threat is becoming increasingly well understood and whereas the most alarming environmental messages used to be delivered by environmentalists, they are now being delivered increasingly by scientists. Not just climate scientists, but biologists, ecologists and other people deeply concerned about what it is that our ways of life and particularly our economies are doing to the natural world. It is our responsibility to change that. I've listed a few issues on this slide and we need, at first base, to ensure that we don't get above a two-degree global average warming.

The Copenhagen meeting was a disappointment to many of us, but at least it recognized that fact. That is what the climate scientists are saying and it is an enormous task. At the moment, as the Copenhagen Climate Conference last March made very clear, the world is on a trajectory rather worse than any of those envisaged by the Intergovernmental Panel on Climate Change. The uppermost emissions trajectories, those redlines, spell deep trouble for the human species. We need to get on to the green trajectory at best, the amber trajectory at worst, if we are to avoid trouble. You will see what that implies for global greenhouse gas emissions—something like an 80-per-cent fall over the time period to 2060, of

which the industrialized countries, that have enjoyed the great benefits of burning fossil fuels in the past, are going to have to take the lion's share of both the economic responsibility and the political leadership.

Those of you who are economists can express this in kind of economics business sort of language and talk in terms of productivity. We business people pay a lot of attention to labour productivity. If we look at the performance of the U.S. economy over the last 125 years, labour productivity has improved by about a factor of 10. We need to achieve the same with carbon productivity defined in exactly the same way, carbon emissions per unit of GDP, if we are to have a global economy that continues to grow at 3 per cent per annum.

Our carbon productivity will have to improve by 6 per cent per annum. We're not doing well this century so far. Over the first 10 years, our carbon productivity improved by precisely zero per cent. Carbon emissions went up more or less in step with economic growth and population. We didn't get that improvement in labour productivity by making labour free. We got it because it was in the interest of every single business to improve their labour productivity because labour was the most expensive factor of production.

That is the first lesson we have to learn and it was right at the top of the lessons in the Stern Review on the Economics of Climate Change published in 2006, but we have got to price carbon. If we want to improve carbon productivity, we must price carbon. We have to do lots of other things as well in terms of technology policy, in terms of encouraging and enabling behaviour change of all kinds, but I would emphasize the final bullet point on the slide that in a market economy, pricing is the key to resource efficiency, investment, and behaviour change. The many conversations I have had with business people and policy makers in Canada make it clear that they understand that, as well as anybody else.

Over the last few years I've been engaged in trying to think about what's the best nature of that carbon pricing. What kind of carbon pricing might we introduce to get those increases in carbon productivity at least cost? We must be clear that the cost of reducing carbon emissions matters. The cheaper we can make it, the easier we can make it, the more likely it is that the politicians will be able to sell it and we can move in that direction. These are the three projects that I've been involved in with the Web sites with which their reports are associated. Mercifully, I don't have time, and you'll be very grateful that I don't have time, to go through the full panoply of the results that we've generated, but I commend them to you.

The first thing to note about environmental tax reform is that it is not a tax increase. It is a tax shift. Taxes on environmental matters go up and other taxes are less than they would otherwise be. Sometimes they actually go down, as in the case of the British Columbia eco-tax reform. Sometimes you get environmental taxes instead of other taxes as might be necessary at times when you have a great public deficit, as we do at the moment in the U.K.

The research hypothesis, to which our work was addressed, was as that little line diagram shows. It is an extraordinary hypothesis if we can find evidence that seems to suggest that it is well founded. What it says is that if we introduce this environmental tax reform (ETR), not only will we get environmental benefits (that's the whole point after all and that's the bottom line that we're talking about here) but, and as an economist this is what I'm particularly interested in, it is possible that we will also get economic benefits deriving from higher employment and increased output and perhaps we can stimulate green innovation and green technology development, which I'll come to at the end. We're interested in both those things, obviously, because we want higher human

wellbeing at the end of the track. That was the research hypothesis on which our work was engaged and we set to work.

Environmental tax reform is something that has quite a long track record in Europe. Six mainland North European countries have already engaged in it since the early 1990s. Because some of them are Scandinavian countries, which have an absolute passion for policy evaluation, they have evaluated those policies intensively. The conclusions are pretty clear. The outcomes have been positive in energy terms, in economic terms. What this research project was especially engaged in was to see whether there had been any noticeable effects on industrial competitiveness. We could find none. We employed a range of methodologies, which I won't go into now, but which are all up on the Web site and detailed in this book, which was published by Oxford University Press towards the end of last year.

Why was it that these effects on competitiveness were less noticeable? Certainly that was what many business people had feared and many policy makers had made provision for and these were some of the reasons. Firstly, this green fiscal reform was not a tax increase; it was a tax shift. Although the price of energy and carbon went up, other taxes went down, particularly labour taxes in the European case.

Many sectors were not particularly energy intensive. If you spend less than 5 per cent of your total costs on energy then the fact that energy and carbon are going up in price is not a particularly big deal. You face other much bigger challenges every day of the week. Not all energy-intensive sectors are intensively traded internationally. Those companies were able to pass on the cost to their consumers. Many of them were able to increase their energy efficiency more than they had thought because of the tax shift. Some of them showed that there was evidence of increased innovation, what some of you will

know as the Porter Hypothesis, and the initiation of a low carbon industrial transition, which I'll return to later.

This was the kind of headline result of that particular study, which we found extremely encouraging. It showed that in every single case with these six major European countries, greenhouse gas emissions went down. They went down in some countries more than others because of the economic structure, because of the size of the fiscal shift that was being implemented, but they all went down. You can see that this is a 6-per-cent reduction from some of the countries; 6 per cent from one policy instrument is a very reasonable greenhouse gas reduction.

No less significant, on the right of the screen, was the fact that, without exception, they exhibited an increase in their gross domestic product. We mustn't get too excited about this. It was a very small increase. If you look at the scale, this is 1 per cent; no one is going to get very rich by implementing this policy. The fact is that most economists had thought that to get environmental improvement you had to sacrifice economic output. Here was clear evidence that this policy could lead to a very modest economic gain as well as the environmental improvement.

Another aspect in the literature, which was causing concern, was the sense that by doing this policy these six European countries might be disadvantaging themselves with respect to other European countries. You remember the European Union is a single market. There are no tariff barriers. One might expect shifts in costs to feed through into competitiveness changes. Well, here was the aggregate for the six ETR countries. You can see there's that aggregate small increase in GDP and absolutely no effect on the economic performance of the non-ETR European economies, no sign there that they are gaining at the expense of these first-mover countries.

I'm going to move on then to the Green Fiscal Commission, which was one of the reasons why you've

been kind enough to invite me here. This is a private initiative because as a special advisor to many government committees and House of Commons committees, I had been recommending and they had been accepting my recommendation that we should have a Green Fiscal Commission to look at the options, opt for environmental taxes as many other European countries have done, but they hadn't implemented it. As you may have noticed, I'm not getting any younger and this was something I wanted to do. I thought we better do it ourselves. We've been very lucky. We managed to get four leading MPs from all the main parties. We left out the Raving Monster Loony Party because I wasn't entirely sure that they had anything much to offer. We also left out the Green Party because it's very small, but we also knew where the Green Party was on this particular issue. We had shadow cabinet ministers and shadow leaders of parties on this commission.

In order to explore this phenomenon of green fiscal reform, we had members of the House of Lords with industrial and political experience. We had all sorts of other kinds of stakeholders, including the Chairman of the Financial Services Authority, the FSA, a member of the Monetary Policy Committee of the Bank of England. These were people of some substance and stature, all of whom bought on to the notion that environmental tax reform was an interesting idea. We weren't going to generate political consensus about a particular package because of the political diversity that we had on the commission, but everyone was interested in looking at the implications and to understand those implications according to this bullet point there.

What did our green tax shift amount to? Well, if you look at the middle of those three charts, and I'm sorry if it's a bit small, you'll probably see there's a little green wedge. That green wedge represents 5 per cent of environmental tax revenues in the overall tax revenue total.

That green wedge is 5 per cent. That was our estimate of where we will be in 2020 on business as usual.

If you look at the right hand circle, this was the tax breakdown after our green fiscal shift. You can see that the green wedge is about 15 per cent of overall tax revenues. That share has been increased and the share in income tax has been reduced by about 10 per cent. The share in business payroll taxes has been reduced by about 30 per cent. Those are the big yellow and red wedges up there so that those labour taxes on households and businesses were reduced to less than 50 per cent of the total, which is a very big tax shift.

The most exciting thing about this tax shift was that it enabled us to meet our greenhouse gas emission reduction targets in the U.K. These targets are probably the most ambitious in the world. They are a 34-per-cent reduction in greenhouse gases on a 1990 base and they are now in statute. With an all-party agreement, the government is legally obliged to meet these. I can tell you that this is keeping some civil servants awake at night because they're not sure that they know how to do it. What we were trying to do with this project was describe a policy, which can at least help. Even we didn't expect that this single policy instrument would meet those targets by itself. The two S1 and S2 scenarios, which were our high and low energy price, green tax reform scenarios, show that we can get below that 34 per cent reduction hurdle.

This picture shows the economic implications of those greenhouse tax reductions. The three B scenarios were baseline scenarios, which we did at different energy prices. The B1, or the medium energy price, taken as the reference, you can see is an index of 100 on both axes. B2 is a lower world market energy price, and you can see that it's good for the economy so GDP goes up, but it's bad for emissions. Emissions also go up at a low world market price. B3 is a world market energy price that

yields the same end-user energy prices as our two fiscal reform scenarios. You can see that with a world market price as high as that, which was several hundred dollars per barrel of oil, we do reduce greenhouse gas emissions as you'd expect, but we also take a very big hit on GDP. The U.K. is now an oil and gas importer, rather than an exporter. We ship a lot of money under that scenario out to the OPEC producers in the Middle East.

On the other hand, if the government increases those energy prices through a green fiscal reform, we get the outcomes of S1 and S2 against the baselines of B1 and B2, very slight reductions in GDP, 1 or so per cent, and very great reductions in greenhouse gas emissions. The employment figures aren't showing there, but we also generate about a half a million extra jobs, about 20 per cent of U.K. unemployment through this policy mechanism—perfectly understandable because we're reducing the relative price of labour. That means labour becomes more attractive in the economy.

I'm going to wrap up. These are our summary findings. I'm not going to go through each one in detail because I'm aware that you would like to ask, I hope, and I would very much like to answer, questions that you may have. Basically, our hypothesis, that initial line diagram that I showed you right at the beginning, was borne out in every detail. We were quite surprised about that. We thought we would find this a much more challenging set of results, but basically we think that this is a policy approach that will fly. The politics is difficult. The politics is difficult whatever country you look at. Obviously I'm aware that you had a federal election, where this was a very important part of the electoral program of one of the parties, and that it was rejected at that election. I'm also aware that in Europe, sometimes we lose these kinds of things, but sometimes they can be made to fly politically. Every single country that's implemented it has retained it and is now looking at extending it.

This was a very important part of the Swedish Presidency of the European Union in the last six months of last year. Sweden now has a carbon tax, having engineered three or four green fiscal reforms since 1991. It has a carbon tax of more than 100 euros per tonne of carbon, which puts rather in the shade, the very ambitious and courageous, and indeed very sensible carbon tax of British Columbia, where I spent two very happy days earlier this week, of C\$30 per tonne of carbon. This is a movement that is happening across the world.

This is my last slide. The evidence is very clear from this instrument that environmental tax reform has a minimal short-term effect on national competitiveness and economic growth. Some of the models show a slightly positive effect on economic growth, some of them a slightly negative effect, but it's very small. It always increases employment. It always stimulates resource-efficient innovation. You need to support this with complementary policies.

I've learned quite a lot since I've been in Ontario about the kind of policies that are being put in place here by the administration. It's quite clear that the administration here gets it, gets the fact that the low-carbon economy is going to be the competitive terrain of the future. That is where, as we move to squeeze carbon out of the global economy, fortunes will be made and lost. Those are the countries that will be competitive. The analysis that we've done in Europe shows quite clearly that Germany is way out in front on this.

Just as a little anecdote, some of you will know that within the last couple of weeks, the U.K. government has published plans for something like 33 gigawatts of offshore wind. We have the best offshore wind resource in Europe, and 33 gigawatts are now under active consideration and development by a whole variety of big, industrial players.

For the largest wind fund currently under construction in U.K. waters, the U.K. has got just 10 per cent of the supply chain expenditures. Ninety per cent of those supply chain expenditures have gone to companies in Denmark and Germany quite simply because they got there first. They were smart. They saw that this was the way the wind was blowing 15 years ago. To see that 15 years ago, you've got to be pretty smart. They're now cleaning up. We've got to catch up. We've got to do much better than that 10 per cent on the 33 gigawatts that we're going to implement over the next two decades. I think we will because we can be pretty smart too, but there's no doubt that we are late.

I've had the pleasure of sitting next to the chief executive of Ontario Power. It's quite clear that Canada is going to move in this direction. You have renewable resources in this country to die for and you've got a southern neighbour, who is very hungry for energy. If you can develop those in a sensible kind of way, then you will be laughing. To do that, you need a carbon price. That's the one element of the puzzle, which the Ontario government has not yet put in place. It's been my pleasure this morning to talk to various officials in the Premier's office putting forward that point of view. Their ears were flapping and we'll have to see whether any action comes about as a result.

Germany is leading the way in Europe. I'm pleased about that in many ways because Germany is still a very strong manufacturing economy. It's got a big manufacturing base and we've got a lot to learn from Germany. The question I leave you with, now that you start moving into this agenda with all seriousness because your big, southern neighbour has finally woke up to the fact that climate change matters, what about Canada? Thank you very much.

Q: I'd actually like to launch the question period with a two-part question. First, there is amongst many of us in Canada a feeling of embarrassment about how lag-

gard we've been in this area, but also concern about how we move forward. I wondered if you had any particular suggestions about how we get the intellectual and political consensus that would be required to put Canada back on some momentum in this direction.

Secondly, I've been hearing a lot lately that in the race between who's going to earn and who's going to pay from the fact that we have to put a price on carbon globally, Canada is already so far behind that we had better find some other area like water, for example, to make our environmental mark and earn our environmental profit. What's your assessment of that?

First part, what should we be doing first and foremost in Canada to build the right intellectual and political consensus? Second, are we too late to profit, create jobs, and innovation and GDP growth from the pricing of carbon? If so what other alternatives should we be looking at?

A: Well thank you Chairman, two nice easy questions to start with. Far be it for me to tell Canada what it should do. The one thing I know about carbon pricing is that it is not only country-specific but jurisdiction-specific. I know you're a federal country. We have chosen a certain way forward in the EU; actually it's the second best choice. The European Commission tried very hard in the early 1990s to introduce a carbon energy tax at rates that were much higher than the carbon emission prices that we're seeing today. It only failed to do that through an accident of politics. Many of us in Europe looking back wished that it had succeeded because the emission-trading scheme is turning out to be a mixed blessing. It's much better than nothing, but many of us think that at this stage in the carbon market it's much worse than a carbon energy tax would have been. We are having to cope with that. Individual countries are doing what they can through environmental tax reform.

Ireland has just announced a carbon tax, and France is implementing an environmental tax reform starting at a

carbon price of 17 euros per tonne of carbon, which is more or less the price that B.C. is aiming at. You have the example of B.C., which not only introduced an environmental tax reform, but won an election despite it or because of it, depending on your political interpretation of the election that they had in B.C. not so long ago. That carbon tax will certainly run its course.

You're all thinking about emissions trading. Some of your jurisdictions have commitments to introduce emissions trading schemes. It looks as if, if the Senate will permit, the United States will get an emissions trading scheme of some kind. That's going to be a difficult process. I know from the European context, it would be much easier if tax didn't have the kind of connotations that we know it has in the United States. It would have been much easier to have introduced a carbon energy tax first and then move towards an emissions-trading scheme once the carbon market was more clearly established.

The United States has chosen the difficult way forward. Canada will have to accommodate that in some way, but I think the biggest single message that I've got from my trip to Canada is that you can, in fact, combine the two instruments. B.C. has every intention of combining the two instruments. Senior civil servants there were absolutely categoric. They're not going to give up the carbon tax, not least because it gets \$700 million Canadian into the public coffers and they would have to increase taxes elsewhere to replace that revenue if they were to abolish it.

That kind of option is open to other provinces and they will have to make a choice on this. There's a lot of hard intellectual work to be done, but that work is going to need to be done because we're all going to have to get into this game as the politics move forward.

Are you too late? You are emphatically not too late. With your renewable resource in Canada, you can come into this game really quite late and you could profit from other people's technologies and still find that this was a

good business to be in. You would do even better if you were the developers of some of those technologies and you were able therefore to earn the licenses and you were able to start exporting to countries, as Denmark and Germany have done, despite the fact that they didn't have particularly good renewable resources with which to start.

The U.K. is the real laggard here in Europe, because we have the best wind and marine resources in the world and we are among the slowest in developing it. I hope our government is now aware of the opportunities here and is steaming full speed ahead down that track. Canada is certainly not too late.

I was talking again about the offshore wind resource on the Great Lakes. That's not developed. Offshore wind is still not a developed market. You guys in Ontario do motor cars and you know how to build gear boxes. These big offshore turbines demand very sophisticated gear boxes. There's absolutely no reason at all why Ontario automakers shouldn't use that expertise to strike out in a different direction. You will need a price mechanism to do that and that's why I'm an advocate of carbon pricing because, without that, your Canadian entrepreneurs won't see where they're going to make a profit.

Q: Professor, I was interested particularly in the fourth bullet of your last slide, where you talked about public support. Given the experience we had with the election on the green shift, I would be interested if you could explain please the evidentiary basis for this bullet. What evidence do you have that the public can be made to understand this and do you have any suggestions as to how that could happen here?

A: Well, another very good and complicated question. The first evidence for the public support is that six European countries have actually implemented this stuff. The Swedes go on implementing it. Let's be quite clear. The Swedes go on implementing it and it doesn't matter

which party is in power, they go on implementing it because they think it's good for the Swedish economy. Swedes are environmentalists, but Swedes are also realists and they're aware that they're a small industrial country, which has to earn its way, but they have decided that this is the way that they are going to build an economy for the future. It's eye watering. There's not a British businessman whose eyes wouldn't water at the thought of 100 euros per tonne carbon tax, but that's what they have in Sweden.

It's not easy. With the Green Fiscal Commission we did substantial work with representative samples of the public in different U.K. locations who had different concerns. Sure there are all sorts of problems. Firstly, many of them don't understand the challenge of climate change. They don't understand why they've got to go there. That's a big problem. Secondly, they don't trust governments to reduce taxes. They believe that they'll increase them, but they don't trust them to reduce them. Thirdly, they're worried, if they're business people, about competitiveness because business people worry absolutely obsessively about competitiveness. You can understand that, but one is able to allay those concerns and the reforms that have been implemented have been able to allay those concerns.

One of the biggest issues in the U.K. context, which will require real political effort to resolve, is the question of fairness. There are quite a lot of perceptions that these taxes are not fair because they impinge most heavily on low-income households. Quite a lot of that is misperception. We had a marvellous example of that because, although this was a representative sample of the population and therefore there were some high earners who would get big reductions in income taxes and would certainly be net winners from the kind of tax shift that we were envisaging, and remember, it's a mathematical certainty that if there's a loser there's a winner because

someone is getting it, because the government isn't getting any more overall, the great majority of people thought they would be losers out of this reform. Obviously, you have somehow to show them the maths and speak to them in such a way that you can persuade them that they can't all be losers. It's mathematically impossible. That's not easy and it's not at all easy in the fracas of a general election when you get 15 seconds on prime-time television to explain a policy that requires just a little more than that to be explicit.

I think my answer is in two parts. Firstly, there's a lot of evidence that you can do it, because people have done it. The B.C. provincial administration did it and did it in a very intelligent way. Secondly, every jurisdiction has to analyze itself in its own way and through clever politics and smart leadership has to present the issue in a way that the public can grasp and is prepared to vote for.

Q: That's a perfect segue to my question, which is also from the previous slide. You indicated there that special arrangements would need to be made for low-income households. I'm wondering if you could elaborate on the types of special arrangements that would be needed.

A: Again, this is very, very context-specific. Every single country in Europe has different tax-benefit arrangements, has different arrangements for low-income households, has different energy-efficiency schemes, has different tariff arrangements, different energy industries, some more regulated, some less regulated. You have to design it for the jurisdiction that you're in.

In the U.K., because we have among the worst housing stock in Northern Europe, an essential element of our scheme would have to be improvement of the energy efficiency of the housing stock targeted on low-income households. That's a big ask and 10 years ago, frankly, that was impossible, because we had no idea at all where low-income houses were and how we could target their

energy efficiency. We've got much more experience with that now. While it is still difficult, it is doable.

The other aspects of that scheme in the U.K. is that we would have to interpret revenue neutrality to mean not just reductions in income taxes for people who pay income taxes, because of course poor people don't pay income taxes, but increases in tax credits for people who are right at the low end of the income stream.

These are the two elements that are absolutely critical in the U.K. context. Other countries have done it in different ways. Just to give you some idea about the diversity across Europe in this, a U.K. government fell in the mid-1990s, at least partly due to the fact that it tried to introduce value-added tax onto the household use of energy. This was the Major government in 1995. It was trying to get up to 17.5 per cent, which is our standard VAT rate on the household use of energy. They never got beyond 8 per cent, and Major lost the election in 1997, whereupon the labour government put it down to 5 per cent and it stayed there ever since.

In Sweden, which is a much colder country than the U.K., but with rather better houses, they have a value-added tax on the household use of energy of 25 per cent, which would be politically inconceivable in the current U.K. context. We just have to evaluate these things cleverly, politically, be aware of what is important and make sure that we put in place the complementary measures to address those concerns.

Q: I have just finished reading Ray Anderson's book, "Confessions of a Radical Industrialist." He is the CEO of a carpet manufacturer that has reduced its emissions by almost 80 per cent and driven \$405 million to the bottom line over the 14-year effort, which was 28 per cent of their operating profit. He's making the business case that it's an incredible bottom-line driver to go green. He does a back-of-the envelope calculation on landfill gas. Interface Inc. has captured the methane that's released from landfills

and is burning it. Because it's 21 times worse than carbon dioxide as a climate change gas, he estimates that the U.S. can meet its Kyoto goals at no cost just through the reclamation and burning of landfill gas, all at a profit. I was wondering if your commission had studied landfill gas because you were looking for a single-policy initiative to achieve targets. Have you looked at this as a single-policy initiative as well as your tax shifting?

A: Thank you for that. That's fascinating information. I wasn't aware of a lot of that. I know Ray Anderson, of course. He's an evangelist and an extraordinary man and has indeed driven what you have suggested through the company. I think you can interpret that in two ways. You can say either Interface had the opportunity and that these opportunities are not available to other companies, or you can say that Ray Anderson is special and despite the fact that there was not a price mechanism there, he was prepared to do it, he had the vision to do it, he had the intelligence to do it, he did it, and he's built a very successful company.

I ascribe to the second reason. There are very few Ray Andersons out there. There may be some in this room, but there are very few out there. Most business people need price signals. If the price signal had been signalling that that was available, then we would suddenly find that the Ray Anderson actions would become much more widespread through business. That's the importance of the pricing message.

On landfill gas, again very interesting, it is the single, greatest contributor to our renewables obligation targets in the U.K. We've been capturing landfill gas and using it for power generation or other purposes and burning it off for quite a long time. We actually have rather little capacity left to do that in the U.K. We didn't look at it in the U.K. context. Certainly it is the most cost-effective way of reducing renewables. If there are countries or provinces in Canada that have old landfill sites that are leaking

methane into the atmosphere, which can be cost-effectively captured, that is certainly a very important thing to do. I'm a little doubtful about the sums that suggest that you could meet huge national targets through landfill tax.

Landfill tax currently provides something like 3 per cent of U.K. electricity and that's not enough. We've got to go beyond that. Wind is a much, much bigger resource. Obviously, the U.S. is a much bigger place than the U.K. and conceivably they've been throwing away more garbage than we have over the last 50 to 100 years, but I don't believe there's enough of that resource. I think they will have to look at the much more mainstream renewable resources, which are really the subjects of European development at this moment.

Q: Thank you for an extremely illuminating presentation. I wanted to close with a question about next steps on the economic geography of ERTs. They seem to have caught on from what you've shown us in countries that consume fossil fuels. They don't seem yet to have caught on in European countries that both produce and consume fossil fuels like the United Kingdom and like Norway. The countries that are in the oil-and-gas business don't seem to have adopted them yet. When I look at North America, we are again hybrid countries that both produce and consume large amounts of fossil fuels. Can you share with us some of your insights as to what the economic performance of a country is that is both a consumer and a producer, and that is both in the oil-and-gas business and uses oil and gas, if they adopt an ERT? How does performance measure in those circumstances because that's going to be what it takes to make this happen in North America?

A: Well thank you, and that's very interesting. I will try to be brief Chairman. Firstly, the U.K. has introduced an environmental tax reform, so it is one of the countries that we did study. It is very interesting because we introduced it at the moment that we moved from being more

or less self-sufficient in fossil fuels to the moment when we became a net importer of gas and we've since become a net importer of oil. We still produce quite a lot, but we don't produce as much as we consume.

Norway has not introduced explicitly an environmental tax reform, but it has a very high carbon tax. The Norwegians are keen to reduce carbon emissions. They realize that's a big challenge when they have a fossil-fuel-based economy and the Norwegian economy is enormously fossil-fuel-based, as you no doubt know. I think that Norwegians have recognized that the more efficient they can become with their own energy, to put it crudely, the more the fossil fuel oil they'll have to sell abroad. They've been very keen both to make the best use of their resource for their own economic development, but also to ensure that they, as we move conceivably to a place where supply and demand globally is much tighter and perhaps fossil-fuel prices in the future are going to be higher than they have been in the past, want to have a little bit of that resource to sell into a high-priced market rather than have used it all up, as I'm afraid the U.K. has in a very low-priced market over the last 30 or 40 years.

The appreciation of the meeting was expressed by Stewart Elgie, Chair, Sustainable Prosperity, and Professor, Faculty of Law, University of Ottawa.



January 21, 2010

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

Rocco Rossi

Toronto Mayoral Candidate 2010

MY THREE PRIORITIES FOR TORONTO

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Gareth Seltzer, Director, The Empire Club of Canada, and President, TWS Private Management Inc.; Catherine Lyons, Director, The Empire Club of Canada, and Partner, Goodmans LLP; Reverend Dr. John Niles, Director, The Empire Club of Canada, and Senior Minister, St. Andrews United Church, Markham; Duncan Jackman, Chairman and CEO, E-L Financial Corporation Ltd., and Fundraising Co-Chair, Rocco Rossi for Mayor; Rochelle de Goias, Senior Policy Advisor, Air Policy Instruments and Policy Design Branch, Ministry of the Environment; John Capobianco, Co-Chair, Rocco Rossi for Mayor, and Senior Vice-President, Public Affairs, Edelman Canada; Borys Wrzesnewskyj, MP, Etobicoke Centre; Kousina Luxxchumykanthan, President, York University Young Liberals, and Youth Co-Chair, Rocco Rossi for Mayor; Eileen Greene, Co-Chair, Rocco Rossi for Mayor; Vikram Khurana, Founder and CEO, Prudential Consulting Inc., Board Member, Asia Pacific Foundation, and Co-Chair, Rocco Rossi for Mayor; Vasu Chanchlani, Co-Founder and CFO, Sigma Group of Companies, President, VC Capital Management, and Co-Chair, Rocco Rossi for Mayor; Justin Poy, Co-Chair, Rocco Rossi for Mayor; Rose Bongolan, Member, Phillipino

Canadian Association; Reverend Father Nicholas Alexandris, St. Nicholas Greek Orthodox Church; Craig Gagliano, Co-Chair, Rocco Rossi for Mayor; Patricia Best; Rhonnie Rossi; Sachin Aggarwal, Campaign Manager, Rocco Rossi for Mayor; Sam Wakim, Partner, WeirFoulds LLP; Igor Korenzvit, Chairman, The IKOR Group of Companies, and Co-Chair, Rocco Rossi for Mayor; and Garry Anandasangaree, Barrister and Solicitor, Past President, Canadian Tamil Chamber of Commerce, and Co-Chair, Rocco Rossi for Mayor.

Introduction by Alfred Apps

Rocco Rossi

Thank you very much for that kind introduction and good afternoon ladies and gentlemen.

I want to thank each and every one of you for coming today and those companies and organizations who sponsored tables.

Thank you for your interest in me, but far more importantly, in our great city, because this election is ultimately about you, not me.

Torontonians really do care about building a better city and a better world.

We've seen that caring demonstrated across the city over the last 10 days for the people of Haiti.

Whether it's rallying to Haiti's side or supporting another record United Way campaign, whether it's building active Business Improvement Areas (BIAs) in North York or Etobicoke, whether it's the incredible joy and spirit at Father Nick's St. Nicholas parish at Finch and Kennedy in Scarborough, whether it's strengthening community in York and East York or whether it's visionary bodies like the Toronto Board of Trade, the Toronto City Summit Alliance, the United Jewish Appeal and its breathtaking "Tomorrow" Campaign, Luminato and the Maytree Foundation, the list goes on.

Our city is full of great people doing wonderful things—and most of the time in spite of City Hall, not because of it.

We are a city that has the wind at its back, yet all too often City Hall acts as an anchor, not a sail.

Defenders of the status quo say only an insider can fix what's wrong at City Hall. Well, that's a little like asking the arsonist to put out the fire.

Every one of my main competitors for the mayor's office has held elected office for many years now, some for decades.

One of my opponents kicked off his campaign by skating at City Hall. If anyone needs more fancy skaters in this town it's the Maple Leafs, not City Hall. But skating is what career politicians learn to do.

When career politicians tell you not to vote for me, what they're really saying is that politics should be left in the hands of career politicians.

It has been more than 100 years since we've elected a mayor who wasn't already involved in elected politics. Maybe, just maybe, that's part of our problem. And that brings me to a vital difference I believe I am offering Torontonians this year.

I am not a career politician.

I value public service and the courage it takes to put your name on a lawn sign and endure the slings and arrows of public debate—but public service is a calling, not a career.

Talented individuals who used to be part of the solution are now part of the problem because, quite frankly, they have stayed too long.

City Hall belongs to all of us, but it has become the private preserve of just a few.

It won't be easy, but we can change this.

Professional politicians alone will never deliver the change Toronto needs, but concerned citizens can. And that's where I come in.

I'm running to do something, not be something. Doing, not being, earned my scholarships to Upper Canada College, McGill and Princeton. Doing, not being, defined my senior executive roles at Labatt, Torstar and the Boston Consulting Group—all companies with a payroll to meet, families to feed and a focus on profitability. And doing, not being, gave me the drive to lead the Heart and Stroke Foundation of Ontario—one of Canada's largest charitable organizations—where we raised donations to record levels and put defibrillators in public places, saving lives and planting hope.

Someone once told me if you don't stand for something, you'll fall for anything. So I've established three key priorities to aim higher for the future, and get this city we love back on track.

The first priority is getting our fiscal house in order.

A recent survey showed only 12 per cent of Torontonians think their local tax dollars are being well spent. The good news is that figure is 9 per cent more than those who think Elvis still walks among us. The bad news is that it's 8 per cent lower than those who believe there really is a Loch Ness monster. It's enough to make you want to laugh—and cry.

Many of you likely saw the recent opinion piece by Don Drummond of TD-Canada Trust and Carol Wilding of the Toronto Board of Trade on Toronto's \$500-million deficit. Their conclusion is that without action now, Toronto is headed for a fiscal crash landing.

A sure sign of how divorced from reality City Council has become is the five-cent plastic bag tax it brought in last year. These bags cost less than a penny to produce but the city receives no share of the five cents you and I pay every time we purchase one. The city also created an enforcement bureaucracy that costs taxpayers \$2 million annually.

A city going hundreds of millions of dollars into deficit created for its retailers a product with the highest profit

margin in the store, while sharing in none of the proceeds. Most companies usually find there's gold in going green, but frankly, in this case, all Toronto taxpayers can see is red. The bag tax is a symbol of a city council that is completely out of touch with fiscal responsibility.

There is no plan to deal with the debt and deficit.

The City of Toronto has to be the last multi-billion-dollar operation on earth that plans on a year-to-year budget basis.

My friend, Amanda Belzowski, who runs a lemonade stand to raise funds for Heart and Stroke, has a multi-year plan and she isn't even a teenager yet!

There is no five-year operating outlook. There is no vision, no courage and no fact base to help make the hard choices that will put us on the road to recovery. That must and will change.

My fiscal recovery plan will sell assets the city can do without and use the proceeds to pay down debt and invest in a few chosen priorities that benefit us all.

I've already said I will sell Toronto Hydro and put every penny into debt reduction.

We will review every other asset in city hands and if they don't measure up they'll go on the block as well.

Sound fiscal plans separate what we can control from what we can't. And that's why I believe the city has to regain control of its labour costs.

We all benefit from a talented public service, and under my direction the City of Toronto will continue to be an employer of choice. But last summer's city workers' strike showed just how weak the city has become in the face of its major unions—and how utterly without a plan we are to correct this imbalance.

As mayor I will bring us back into balance by pursuing outsourcing and managed competition for certain city services. We all know there are areas like waste collection where the city can deliver services more efficiently and less expensively through outsourcing. We'll invite all qual-

ified bidders—including unions—to compete for the right to deliver these services at a price we can afford.

Getting our fiscal house in order is absolutely essential to securing our future prosperity. As long as just 12 per cent of Torontonians have confidence in the money management at City Hall, the federal and provincial governments have all the excuses they need not to invest and partner with the city—and they don't pay a political price for this inaction.

If Toronto can arm itself with a credible fiscal plan, however, Queen's Park and Ottawa will lose this free pass. They will have to come to the table and work with us to keep Toronto strong. Facts, not whining, are what will truly bring Ottawa and Queen's Park in as real partners.

Freed from the shackles of debt and disarray, we will be able to invest our resources in areas that benefit us all, such as transit and transportation. And that's why my second priority is getting Toronto moving again.

Nothing captures our rising frustration more than how difficult it is to get from point A to point B in the city by bus, bike or car. Gridlock is choking our streets, our economy and our quality of life. Car commuting times are doubling, transit fares are rising and service is declining.

The TTC in particular seems deaf to the mounting frustration. Its dogged determination to tear up our streets, sever neighbourhoods and interrupt established shopping patterns—as it is doing on St. Clair West—shows all the signs of too much political interference and too little discipline, accountability, business sense and respect for taxpayers' money.

Torontonians are united in their belief: no more St. Clair's. We are beyond the time for after-the-fact blue-ribbon panels to look at fiascos like St. Clair.

Ranking at the top of my proposals to get Toronto moving again will be a commitment to install a private-sector board of directors at the TTC as has been successfully done at Metrolinx.

We don't need more political oversight on the TTC board. That's what City Council is for.

We do need technical excellence, business sense and a desire to build a first-class modern transit system that works in harmony with cars, bikes, pedestrians and the rest of the region.

For too many years City Hall has been stuck in the zero-sum game that transit and biking are good, and cars are bad. Cars are neither good nor bad, and until we build the first-class transit system of the future—and we will—cars are simply a necessity for many people. I love cycling. I once cycled 1,900 kilometres to raise funds for life-saving defibrillators. I spend a lot of time on my bike in the city, but as mayor I'd call a truce in the war on the car by opposing any further bike lanes on arterial roads—including Jarvis Street.

I'd couple this with fast-tracking the completion of Toronto's bike-lane network on quieter streets parallel to arterial roads, because common sense and safety tell me that bike lanes and arterial roads do not mix.

We have to get Toronto moving again or the world will vote with its feet and go elsewhere, which brings me to my third priority—ensuring Toronto's future economic prosperity.

For too many of the last seven years we have been without an economic development manager. No other major city in the world has taken business and economic development so for granted. Invest Toronto is a strong first step, but what we really need is Invest GTA where we work and compete as a region, the way all strong regions do.

For too long, economic development has been about stealing business from one side of Steeles or the other. We need to eat Chicago's lunch, not Richmond Hill's; Boston's lunch, not Vaughan's; and Dallas's lunch, not Mississauga's.

Toronto needs to show some leadership and put the T back in the centre of the GTA where it belongs. I want a Greater Toronto in an even Greater Toronto Region.

The 2015 Pan Am games are a tremendous opportunity for the GTA and beyond to think, plan and act like a region with respect to transportation and infrastructure. From Oshawa to Niagara, from Lake Ontario to Barrie, let's seize the opportunity so that we all benefit from this exciting hemispheric event and build better working relationships and models for the future.

So, there are three priorities—fixing the city's books, getting Toronto moving again, and attracting new economic growth—and I'll add more details on each as we move toward the election.

We're also going to tap into our incredible well of civic energy by creating a City Builders Fund, because Torontonians care about building a better city and a better world.

Whenever the city approves a building project that goes beyond current zoning it receives additional development fees that normally stay in the ward. These are known around City Hall as Section 37 fees.

As mayor, I will direct 50 per cent of these fees to the Toronto Community Foundation to set up a fund. This fund will partner on a matching funds basis with groups like the United Way, the Maytree Foundation and the private sector to fund community-based projects in neighbourhoods chosen by a non-political board and process made up of the funders.

We need to use every ounce of our imagination to help strengthen these priority neighborhoods. While crime in much of the city is down, families and children are growing up surrounded by crime and violence in these neighbourhoods. In fact, recent statistics show that reported shootings in the city are up 21 per cent since 2007. The number of victims is up almost 30 per cent in

the same period and many are from these neighbourhoods.

These numbers are simply unacceptable. I will use my office to work with the police to end intimidation and make our streets, especially those in troubled neighbourhoods, safe once again.

By creating a City Builders Fund, every time we build a condo on the waterfront we can build community in Malvern, Rexdale and Flemingdon Park—and we can do so in a way that involves our many civic entrepreneurs and builds engagement.

My friends, much of what I feel is rooted in a deep passion; a passion for a city with unprecedented potential; passion for the vast array of people and thinkers and doers who love not only their families, faith and culture, but who love the bright future that tomorrow represents.

And there is no question, our future is bright, but once the lights in here are dimmed and we go our separate ways, you must be wondering:

- How do we actually make a difference?
- How do we bring about real change?

Only three in 10 Torontonians voted in the last municipal election; three in 10.

My friends, that's not democracy, that's barely a pulse.

If we do only one thing today, we must leave here determined to breathe life into our civic democracy. To use the tools our democratic process has given us to register our desire for change and renewal.

You—every single one of you—can choose to make a difference—a difference to support new voices and a responsible new direction for Toronto.

It starts by circling the election date on the calendar now—October 25. And it continues by making a vow that October 25 will be the day you vote to take back your sense of pride, hope and belief in a lifetime of better tomorrows. October 25 can be the day you take back the prosperous future your children so clearly deserve.

October 25 can be the day you take back your right to dream and see your city enter a new golden age of economic growth and innovation. October 25 can also be the day you take back your streets and your neighbourhoods. And it can be the day you take back opportunity and equality for all in the city, no matter whether your parents came here 100 years ago or 100 days ago.

So, if you're still wondering how you can bring about real change, on October 25, take yourself and everyone you know into a voting booth and juntos, ensemble, insieme, together vote to take back your city.

Thank you.

The appreciation of the meeting was expressed by John Capobianco, Co-Chair, Rocco Rossi for Mayor, and Senior Vice-President, Public Affairs, Edelman Canada.



Gareth Seltzer, President, TWS Private Management Inc., and Past President, The Empire Club of Canada, and Rocco Rossi, Mayoralty Candidate.



January 28, 2010

A joint meeting of The
Empire Club of Canada and
The Swiss Consulate of
Canada

Ken Read

President, Alpine Alberta

WILL CANADA OWN THE PODIUM AT THE 2010 WINTER OLYMPIC GAMES?

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Tim Reid, Director, The Empire Club of Canada, and Director, Business Development, ZED Financial Partners; Taylor Reid, Prefect and Grade 12 Student, Havergal College; Justin Fogarty, Partner, Davis LLP; Bernadette Hunkeler Brown, Consul General, Consulate General of Switzerland (Toronto); Daniel Oehy, Director, Swiss Canadian Chamber of Commerce, and President and CEO, Swissmar Ltd.; The Honourable Margaret R. Best, Minister of Health Promotion, and Member of Provincial Parliament, Scarborough-Guildwood; Hans Munger, President, Swiss Canadian Chamber of Commerce, and President and CEO, Auto-Motion Shade Inc.; Reverend Ajit John, Priest-in-Charge, St. Matthews Anglican Church; and Counsel, Law Society of Upper Canada; Caitlin Craig, Grade 11 Student, Country Day School; and Verity Craig, Director, The Empire Club of Canada, and Managing Director, CV Management.

Introduction by Daniel Oehy

Ken Read

Madam Minister, special guests, a special welcome to the students who have joined us today, ladies and gentlemen, it's a pleasure to be able to join you and to talk today about Own the Podium and what's going to be coming up in just 15 days. It's really hard to imagine that it's two weeks to the opening of the games in Vancouver.

As we look at this picture, I do want to mention that the waving Canadian flag is actually from the World Championships in 2003 in St. Moritz. If you look very carefully, you can see that the mountains behind are from the Gebunden area, where Canada actually won gold and bronze. We're certainly hoping to be able to do much the same on the slopes of Whistler and elsewhere in the lower mainland of B.C.

I want to mention one Swiss connection that happened last weekend, because it's timely. We all know what has happened in Haiti. Didier Cuche, who won both the downhill and super-G at the Hahnenkamm in Kitzbuehel, much to the chagrin of the Austrians, is a great Swiss competitor. He took his race bib and he's donated it to raise funds for Haiti relief as have some of the other competitors. Last I heard they had raised C\$30,000 or so for that bib. Even though they're racing and even though they're focused on the games coming up, they are aware of what is going on in the rest of the world.

These are going to be exciting times. The next slide shows what a really good downhill tuck looks like. You can imagine trying to do that at 130 kilometres an hour and while you're doing it, telling yourself to relax and go faster. That's what ski racing is.

These games are going to be an incredible 17 days. We can't imagine how exciting this is going to be for Canada and for the sporting world. Over this period of time, we're going to have pageantry and emotion. We're going to have excitement. We're going to have pride. There's going to be

history made where in a split second someone can suddenly end up on the cover of Sports Illustrated. There's going to be excitement and competition, especially in the new sports like skier cross, and stories of courage, the thrill and elation of victory and the crushing agony of defeat. That is what sport is all about. It's really the ultimate reality show. We're going to have all of those emotions on display very, very soon.

We are changing something as we go into these games. Canada has now had the privilege of hosting three Olympic Games: Montreal in '76, Calgary in '88 and now Vancouver in 2010. What's good about this is that each time we've held the games, we've learned something. In Montreal we ran a very, very good games. We learned how to be great hosts to the world. In Calgary we focused on legacy. In fact, the Olympic Oval has become a fantastic legacy—the number-one facility in the world. As a result, it is no surprise that we have the number-one speed-skating team in the world.

In Vancouver, something different has been done. We have focused on the athletes and that's what I want to focus on today. We have a new paradigm for high-performance sport in Canada, where there is a focus on trying to put the human, technical and financial resources into making sure we can put our athletes on the podium. It has been an interesting debate. The genesis of it actually happened here in Toronto at the corner of Yonge and St. Clair in the offices of the Canadian Olympic Committee, where the 13 members of the National Sport Organizations listened to presentations from the six different funding partners: Canadian Olympic Committee, Canadian Paralympic Committee, Sport Canada, Vancouver 2010, Legacies Now and CODA (now WinSport), all explaining how we were going to Own the Podium, how we were going to succeed in 2010.

We realized that we were going to ride off in about six or seven different directions rather than have a coherent

plan, so we said, "Let's get everybody together so that we can, in fact, develop a partnership that will benefit our athletes." The net result was a clear goal of wanting to finish first because we believed we could finish first. We wanted to put the funding in place to make sure it happened.

To go back a little bit to understand the context of 2004 when all of this happened, \$20 million was being invested in high-performance sport to make sure our athletes were competitive around the world. To put that in context for you, because \$20 million sounds like quite a bit of money, the Austrian ski team has an annual budget of \$20 million. That's one country, one sport. In Canada, we were putting \$20 million into all of the winter sports. We needed to make a change to make sure that we could elevate our athletes.

A study was done by Cathy Priestner Allinger, who is now the Senior Vice-President of Sport at VANOC for the 2010 games. The focus was on what we needed to do. The first focus was how do we get more medalists? How do we get more potential medalists? How do we elevate those who are currently at the top and make sure that they have all the resources necessary to try to be the best that they can be? The second step was how do we convert that performance into medals at the games. Twenty-seven per cent was our conversion rate of taking athletes ranked in the top five in the world and the World Cup and actually delivering medals at the games versus a country like Germany where it's up in the 90-plus percentage range. That conversion was based on people competing in places like Kitzbuehel, speed-skating ovals in Germany, or tracks in Italy and so on in the various sports. How do we take those World Cup performances, take away the nervousness of competition, and make sure that they can succeed?

Probably this is the best example that I can give you of conversion. In 1980 at the Lake Placid Olympics, the

Austrians, who are always strong, went in with a team that actually left the defending Olympic champion at home. His name was Franz Klammer, a name you may be familiar with. He didn't qualify for the team; that's how strong it was. They had the defending world champion on the team. They named five athletes. Their reserve athlete came down for training. His name was Leonard Stock. He was blowing everybody's socks off. The Austrian coach said, "He's in the race now. The rest of you guys have to compete to be able to go in the race." They went to the games actually told they were going to race. Stock was going to be there if somebody got hurt. Halfway through training, the coach said, "There is a change in the game plan here. Stock's in the race. The rest of you have to compete to get on the team."

On race day, Leonard Stock won the gold medal, Peter Wirnsberger was second, and the defending world champion didn't race because he wasn't fast enough. That's conversion. That's going in, being tough and direct, and saying, "We have to be focused on trying to make sure that we deliver the best possible performance." In this case, the Austrians left the Olympic champion out, the world champion out, and came away with two medals, gold and silver.

To get to that point, what do we need to do? At the end of the day, it still comes down to funding and people. The big change that we made back in 2005 was an addition of \$20 million into the high-performance pool, meaning we were going to spend \$40 million a year. The \$110-million program was partly financed by the sponsors of the 2010 Olympic Winter Games. A lot of people don't realize that half of that money comes from the private sector and half of it from Sport Canada. We taxpayers are contributing as well. The goal was an increase in our medal potential from the 15 that we had won in Salt Lake City in 2002 up to a projected 35 medals, which was thought to be what we

would need to do if we wanted to finish first in the medal count.

A lot of people asked how Canada could finish first in the medal count in the games. At the end of the day, it really doesn't matter whether we finished first. The important thing was our plan. That's the most important part. The new paradigm in Canadian sport is saying what we want to do. One of the biggest things that came out of this whole plan was how the sports talked to each other and collaborated with each other.

When we were talking about the number of medals, one of the funding partners said, "We've been talking a lot about medals, but how many are focused on how many gold medals we're going to win? Along the way, if we're focused on winning gold medals, we'll pick up silvers and bronzes as well." It was hockey, really, that became the bottom line because I think everyone in this room will agree that our hockey team is not playing for silver. If the team doesn't get into the gold medal match, we are in a kind of national mourning. If that's true for hockey, why shouldn't it be true for every other sport? You won't win every time, but if your plan is set up to try to aim to be number one, you'll make the right programming decisions. It was the partnership that made the difference when everyone said, "We need to work together to pull this all into a coherent plan to make sure that we're ready."

We've focused on the athletes, and investing in sport organizations—coaches and athletes and programs, making sure that they have what they need to prepare for the games. We've focused on early construction of the Olympic venues. That was a shrewd move by the 2010 Organizing Committee because if you go back several years, Vancouver was in a very, very hot economic climate. They needed to get things built quickly. The ancillary benefit or the spin-off benefit was that many of the venues were ready early. From 2008 the alpine venue

has been ready. Our athletes have had training camps there for the last two years. They have had time after time after time down those slopes to be intimately familiar with them. That's happened with the bobsled track, ski jumps, the cross-country loops and the Olympic Oval.

We've been building a home-field advantage. The home-field advantage is more than simple familiarity, because when it comes down to the games, many people don't realize things actually change completely. You've been training and competing within your own national team and then you go to the games and an organization called the Canadian Olympic Committee suddenly becomes responsible for everything. The Canadian Olympic Committee actually runs things extremely well. They are very organized, but all of a sudden you're in a different bed, you're in a different uniform, you're dealing with different people in the media, and you are expected to carry a different type of accreditation. That can throw an athlete off, a highly tuned, highly honed athlete off. We have to find ways to make sure we have organizations working closely together, and merging closely so that there are no wrinkles as we prepare for the games.

Money and planning have been put in place because we know that they are the key pieces of that conversion—making sure that we take our World Cup winners and turn them into Olympic champions. Then there's the focus on research and development. That's top secret where, in the case of alpine skiing, which I know intimately, we've had key areas that we've zoned in on. We've never, ever done this before. We've always inherited technology from other countries and as it's developed through private industry.

To give you an example that you may remember, an athlete by the name of Jeremy Wotherspoon in Salt Lake City in 2002 was considered one of the gold medal favourites in the 500-metre event. He went up to the starting line, the gun went off and he fell. What happened? The

Americans in 2002 had a top-secret program. They had been working closely with a number of organizations, including NASA, to develop speed skates, but also with their speed-suit provider, the competition-wear provider. Going into the games they had better suits than the Canadians. The Canadians knew it. I asked Jeremy Wotherspoon after the Salt Lake City Olympics, "Did you go to the starting gate knowing you had to skate the race of your life to beat your training partner from the United States who was right beside you?" The answer was, "Yes." And he made a mistake.

You may remember that Catriona LeMay Doan who had totally dominated her discipline, barely won. You cannot allow those kinds of things to happen. We've been spending upwards of \$7 million a year to make sure every single rock is uncovered. The alpine ski venue is in a unique environment. Most alpine competitions are held in dry, continental climates where you have relatively stable weather. At Whistler, the weather is kind of interesting. It has a maritime climate. It has a Pacific climate. It has wet snow. It has big crystals. We've been focusing on working with General Motors at their wind tunnel in Warren, Michigan, to make sure that the downhill suits are going to be as fast as possible.

They found out, actually, that one of the previous providers to the Canadian alpine ski team provided slow undergarments. We've changed the provider and now we've got undergarments that are fast. This is something you wouldn't even think of because you put your stuff on underneath, you put your downhills on and you go. Isn't speed based on the surface and the permeability? No. We found out that some stuff inside holds the air more and we become slightly slower.

With the snow, we bought a state-of-the-art winter starter base grinder, which in turn has enabled us for the last couple of years to do test after test after test.

Brad Spence, one of the athletes who has been named to the team, for a whole year, for the period of the World Cup in 2008, two years ago, spent two weeks going up and down the Dave Murray downhill to try to gain as much experience as possible with base grinds and wax to make sure that in changing conditions we knew instantly what to put on the athletes' skis.

With the University of Calgary we developed a GPS tracking system that enables the technical disciplines to understand how to accelerate out of a turn, to track the athletes so that they can see an optimal development pattern and for younger athletes that they can measure themselves against the best athletes and can learn how to get that little extra acceleration out of each turn.

For our Paralympic alpine team, because the Paralympics are equally part of Own the Podium as well, sit-skis for the disabled athletes that use them are developed out of garages. We've been working with the University of Sherbrooke to develop a new sit-ski. Some of the athletes on the team, in fact, will unveil these. They've been using them already in the World Cup, but will have them available to them for the first time where they have been closely monitored with the use of engineers to make sure that they can be the very best possible.

We've got this great program with lots of funding, extra coaches, the momentum building to make sure that our athletes can be successful, but we have to ask the question, "Do we really want to Own the Podium as a country?" Do we really want that? At the end of the day, you can bet that the Austrians do. They're focused on trying to be the best in the world. The Swiss only know that too well.

I think we have to ask ourselves, because it comes up in the media every now and then, "Do we really want to win? Do we really want to make sure our athletes have the best possible opportunities?" This is a picture of Stephen Colbert who was having a great time teasing the folks out

in Vancouver, especially in Richmond, about the Olympic Oval. It was a brilliant marketing move because the U.S. speed-skating team had lost a sponsor. A Dutch bank had to pull out and left them \$300,000 short. He actually appealed to his viewing audience to sponsor the U.S. speed-skating team. It was enormously successful. In his rants, he focused on saying that Canadians were syrup suckers; they were not letting U.S. athletes get access to the Olympic Oval in Richmond. They were not playing fair. Were we not playing fair? The answer is: we were playing fair, but they didn't get 1/100th of a second more than they were allowed.

Every athlete and every team gets access to the facilities in the various sports, but in this game, there are no nice guys. There's no point after the fact saying, "You know, we shouldn't have let them go on the oval and get that much more training because then they turned around and they beat us." When you go to the next games in Sochi in 2014, the Russians aren't going to suddenly turn around and say, "Oh, those Canadians are nice guys; we'll let them come on," unless you build alliances. If you build alliances, then it makes sense. We have had alliances with the Swedes and the Italians back in 2002 to help lift our team and get access to unique training facilities. These are some of the tactical things that you have to do because in high-performance sport, you must be tactical, but you must always be focused on what is your goal, which in this case is to win the medal count in 2010, and you have to make sure your athletes come first because nobody else is going to be looking out for the Canadians.

There are often discussions about whether or not we really do truly want to win. I always ask that question. Why are we so rabidly following our Canadian hockey team? Why do we desperately want them to win the gold medal? We believe that it's our game, it's our sport, it's something that we believe we should finish first in. I can

assure you that every athlete in every other sport feels the same way.

I had a reporter call me up a couple of months ago and say, "This Own the Podium program is trying to change Canadian attitudes about sport. It's something new." My answer was, "Well, you know, I've had the privilege of competing in the Olympics twice. In 1976, I can assure you I didn't get into the starting gate hoping I was going to come fifth." I had one focus. I wanted to lay down the best possible run. Even though I was competing against Franz Klammer, who had won every race, the last 14 prior to the Olympics, I still wanted to try to beat him. I still wanted to be first. Everyone on my team wanted to try to win the gold medal. All my coaches wanted to win the gold medal. That was back in 1976, 34 years ago. That hasn't changed within sport. What we've done is we've changed the way we try to go about it. The worst thing you can do for an Olympic athlete is to send them to the games without proper funding, without proper support, but with very, very high expectations.

Now the athletes will get into the start, get up to the starting line, be in the blocks, and all they need to do is to focus on their performance. They still have to deliver, but they don't have to worry if they have the right skis, if they have the best suit, if they have had the right training camps. Those worries are gone. Performance delivery is the only worry.

At the end of the day, what this really comes down to is in sport you want to be part of the game. I'll use hockey again. We want to be in the gold medal match. We don't want to be standing on the sidelines watching the gold-medal match. We want our skiers to be going into Whistler saying, "We can be competitive; we can go into the start gate believing that if I can't do it, then I've got a teammate who will be right behind me doing it." We are competitive in speed skating, cross-country, any freestyle, all these various sports. We have a belief that we are in

the game, we are part of the competition, we are part of the excitement.

Jake Wentzel says it so well. It is about winning. It is going in and trying to do the best that you can do. It's being part of the fight, it's being part of the match. It's believing when you line up that you've got all the resources and you are part of history being made.

In conclusion, what can we expect in Vancouver? I've got a couple of predictions for you. The first one is that you won't be able to predict the weather. It could be great; it could be terrible, but it will come off. We have 17 days. People forget that in Calgary both the men's and ladies' downhills got cancelled and moved and were held a day later because of winds and Chinooks. People forget that in Calgary we had +17 degrees Celsius temperatures and the Chinooks ravaged the events. Everything came off and was fantastic.

Prediction number two is that these will be great games. John Furlong, CEO of the 2010 Organizing Committee, has said that the games themselves are important to the lower mainland and Vancouver and British Columbia, but Canada's performance at the games matters to everybody across the country. We're going to get both. There's no question in my mind that every Canadian will be extremely proud of Vancouver as our hosts and of the job done by the people there who have been working for the last seven years to make this such an incredible opportunity.

Prediction number three: are we going to Own the Podium? It's going to come down to the wire. It's going to come down to the last couple of days, maybe even the last day. In the ice sports, we can, I think, feel very confident that we're going to come away with at least three or four medals. I'm talking about hockey and curling—two in hockey and two in curling. Speed skating is going to be our mainstay where we should win at least 15 medals. That's going to be the bulk of it. The difference is going to

lie in the snow sports—freestyle, skier cross, snowboard and alpine and the kind of momentum we can build. Probably one of the greatest indicators is going to be the winner of the first gold medal for Canada at these games. We will win a gold medal. Is it going to be Jennifer Hyland in freestyle or is it going to be Manny Osborne-Paradis in men's downhill? They're in competition to see who'll be the first one. That will set the tone in terms of momentum because there is momentum in an Olympic team. Believe it or not, even though we have all these different sports coming together and many competitors don't even know each other because they've never been together before, you build momentum, you build enthusiasm, you build excitement. I hope the snow sports will build that excitement.

At the end of the day, our primary competition is going to be with Germany and the United States. To be honest, I think the Germans might get us. I think we might be number two. As I said, it's going to come down to the final competitions—the gold medal matches probably in hockey, men's and ladies', and the curling matches. Germany right now has moved into first place. They're about 30 per cent ahead of us in terms of medals and World Cup. Again, it comes down to that conversion factor.

We must aim for the right target, aim to be number one and aim to get to Own the Podium. It might mean we're on the podium a lot, but I think the most important thing is I'm not fussed if we don't actually win the medal count. That's not important to me. What's important to me is we've got the right target, we've put the right program in place and we've built a team that we're going to be tremendously proud of going to Vancouver.

We're at the start gate of a long journey with pride in our athletes, pride in our country, and excitement about a tremendous undertaking. Most important is whether this is going to inspire kids from coast to coast to coast to

want to take up sport, to want to put themselves out, to take risks, to learn the dedication focus and effort that goes into becoming an Olympic athlete. That, to me, makes the journey all worthwhile.

Thank you. I understand there are a couple of questions that I can respond to.

Q: This year we've seen a lot of injuries on the World Cup. Speaking specifically about the Canadian ski team, we have six of our top athletes injured and not able to participate in the games. This is not only about Canada. There are a number of other countries that have had significant injuries. Can you comment on what you think is the cause of this and what the Canadian and other national teams can do to try and make it a bit safer.

A: That's a good question because it's certainly devastated the Canadian team and probably the Austrian team even more so. The difficulty is, of course, in the number of athletes. Our World Cup Champion, John Kucera, is unable to race. Kelly VanderBeek is another athlete who was a potential medalist. The flipside is we've been able to put some younger athletes in, two from Ontario. In fact, Erin Mielzynski and Tyler Nella, both from Toronto, are going to be able to compete at the games. They're going to get some experience, but what a price.

To put it in context, there has been a tremendous number of injuries at the World Cup level, the top level of competition, an unacceptably high level. If you go to the next tier down, the Nor-Am circuit, there have been almost no injuries even though those athletes actually fall even more. What we're talking about is that percentage difference, the minute differences in better skis, tougher courses, athletes going faster, pushing themselves. They push themselves over the limit.

The International Ski Federation is actually undertaking a study right now to evaluate what to do. There is not any one solution, but we're going to have to do a bunch of things. Canada has put forward a proposal, which

includes introducing higher permeability in downhill suits, reducing the speeds across the board, putting speed limits in place in all disciplines, and looking at consistency because we do a thing called water injection. This makes the surface literally like a skating rink; it consists of rock hard snow. If you don't prepare the surface consistently from start to finish, you have to prepare the skis for the iciest surface, but then if it changes all of a sudden you're putting the athlete at risk. You have to eliminate that inconsistency. We have to take steps to pull back the speeds because the skiers are going too fast. Right now, if you fall in downhill, you're hurt. That's not acceptable. We have to make those fundamental changes in our sport.

Q: On the conversion table you showed, the Germans at 92 per cent are just head and shoulders above every other country on the table. In the spirit of modelling success, do we know specifically what they're doing or anything we could attempt to do?

A: We've been bringing in experts from them. A lot of it is they have a focus on a lot of the key sports in which they are successful. Biathlon is one of their key anchors, where, of course, Canada is not competitive at all. They focus on biathlon, cross-country, and ski jumping. They focus on their preparation. They peak them. They tend to limit their competition early in the Olympic cycle, year one and year two, and then build them up. They also have the benefit of great training facilities, focus-training facilities and well-financed programs.

It comes down to having the coaches, having the technology, and trying to import experts into our country. For example, we have a number of German experts that are at the High Performance Centre at the University of Calgary, which is considered the number-one biomechanics lab in the world. Up to 2004 we hardly used it, except in speed skating. Look how it benefited speed skating. They developed the clap skate, which is the faster speed skate. It's

teamwork that we come back to. That's the big difference. It's the teamwork of the Own the Podium group making sure that all this information is shared.

Q: I read the article in the Globe and Mail talking about the Chinese and what they've done with their snowboarders. I was wondering if you could comment at all on what you think the Chinese are going to do at the Olympics this year or do you think it's going to be another four or eight years until they start winning?

A: The Chinese, again, have been very methodical. You will see it in freestyle especially and short-track speed skating. Canada got quite a shock in the aerials when we were in Torino thinking we were the number-one nation in the world. We ended up going away from Torino with no medals. We got a real shock at the first World Cup of this year. The Chinese have a step-by-step methodical approach importing Canadian coaches to help with their program. All they had to do was take somebody who was good at tumbling, good in the air and teach them how to ski. They've been pulling in athletes from gymnastics and diving and developing them. They get them on skis with a focus on trying to be the best in the world at freestyle skiing.

We have just started to do that, but it's already started to reap benefits with our freestyle programs. The Chinese target certain sports. Now they're doing snowboarding. Look at tennis. Now they've finally got somebody who got close to the final rounds of a grand slam down in Australia. They don't try to do everything. They're only just beginning in alpine skiing. That is seen as a very technologically laden sport. It isn't as straightforward as freestyle where you have to go down a ramp and once you're up in the air you can figure out what to do.

Speed skating is the sport where we're number one in the world. One of the things that has made the speed-skating team so strong was that they also had a hockey program. Our top athletes included Clara Hughes, a

cyclist, who became a speed skater. We have to pool our talent and that is something that we weren't doing very much of in Canada until recently.

Q: We have been talking about top athletes. They are already there. They have been selected. They will participate. How do we build a talent pool? How do we manage a talent pool and how do we select from it?

A: That is a good question. You want to have your successful athletes at the top. I'm a top-down guy. If you have success at the top, people are motivated to get involved. This is better than a bottom up where at the bottom you try to build programs and then hope people will come. You need to have motivation.

A good example is Kyle Shewfelt who won a gold medal at the Athens Games of 2004. Every single gymnastics program in the City of Calgary was full one day after he won his gold medal. How did Kyle get to where he was? He was in a very targeted, focused program where Gymnastics Canada made sure that the resources were made available by getting him good coaching and supporting him financially. It also took the determination of one athlete because Kyle had to spend \$30,000 of his own money in the year that he won a gold medal.

There's the hurdle of funding. There's the hurdle of getting the athlete who is going to motivate the others. We need to have a sustained investment in athlete development. At this time, we don't have a post-2010 plan. We've been focused on Owning the Podium in Vancouver. There has been a study done by the post-2010 committee, but I regret to say the minister is sitting on the report and doesn't want to issue it. I know what it says. It says that we're going to maintain the independent organization called Own the Podium to determine who gets what in high-performance sport. In one of the submissions Roger Jackson and Alex Bowman, who are the two heads of Own the Podium, said, "We need to put an investment, a sub-

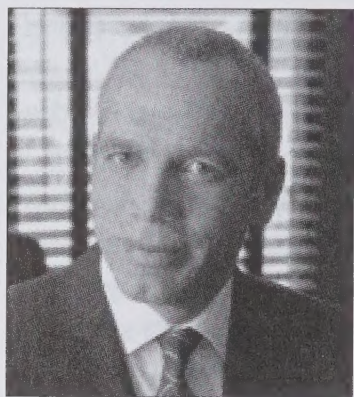
stantial investment, into junior teams and athlete development.”

The Canadian Sports Centre in Calgary issued dismissal notices to 37 people last week effective April 1 because they have no funding. I hope on March 4, when the Finance Minister announces the budget, there is a request to put funding in place to maintain the Own the Podium program. Ten million dollars for winter sport is secured in core funding for high-performance sport, but there's \$10 million plus that's missing. We're hoping that the minister is successful in getting that into the budget. We'll know on March 4.

The appreciation of the meeting was expressed by Tim Reid, Director, The Empire Club of Canada, and Director, Business Development, ZED Financial Partners.



Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada, and Ken Read, President, Alpine Alberta.



February 4, 2010

Julian Falconer

Senior Partner, Falconer Charney LLP

THE POLITICS OF PUNISHMENT: DEPOLITICIZING JUSTICE REFORM

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Rosemary Sadlier, President, Ontario Black History Society; Rudyard Griffiths, Director, The Empire Club of Canada, and Co-Director, Salon Speakers Limited; Tam Goossen, Vice-President, Urban Alliance on Race Relations; Kimberly Murray, Executive Director, Aboriginal Legal Services of Toronto; Reverend Dr. John Niles, Past President, The Empire Club of Canada, and Senior Minister, St. Andrews United Church; Anetta Jewell, Director, The Empire Club of Canada, and Partner, Great Lakes Brewing Co.; and Dwight Drummond, Anchor-Reporter, Rogers CityTV Toronto.

Introduction by Alfred Apps

Julian Falconer

Introduction

There are very few “hot button” issues that can trigger visceral reactions on the part of the electorate the way

that a debate around crime and the justice system can. It is true that the economy, health care and education are also major sources of contention, but today I wish to confine my comments to governments and the justice agenda.

Certainly, the most recent Senate appointments by the Conservative minority government have been touted as the route to making Canadians safer. As recently as last Saturday, the *Globe and Mail* front-page headline described Prime Minister Harper as now being in a position to “Drive the Crime Agenda” as the result of these five new senators.

I know what you’re thinking. Human rights lawyer somehow “wangles” platform at the bastion of old Toronto, the Empire Club, and now we are going to be treated to a half-hour of a “hug-a-thug” lecture. You’re half right. You are trapped, but the human rights lawyer is going to put a different hat on. My economics degree and the venue that I am having lunch in today somehow inspires me to think in terms of investments. The issue I want to explore is whether “getting tough on crime” through a series of bills providing for stiffer punishments and more jail time is a good expenditure of tax dollars.

This is not a presentation aimed at preaching for the abolition of prison. Nor am I here today advocating lighter sentences on grounds of compassion. In creating laws that significantly increase jail time for thousands of people through mandatory minimums, harsher sentences, removal of parole etc., a question that we all need to ask and should have an answer to is whether these are sound fiscal measures which have a reasonable prospect of making us safer.

Put simply, is the doubling and tripling of expenditures to build more jails and house more inmates a good sound investment?

Before the groans begin, let’s take stock for a minute. Nowadays you get slotted into one of two camps. You are

either a “Hug-a-Thug” bleeding heart or you are a “Law-and-Order” type.

One of the realities that make us all so vulnerable to manipulation by politicians at election time is that the instant one begins to question a particular justice policy we are automatically slotted. This of course has the effect of undermining whatever view or concern that is expressed as simply typical of our camp.

Just for a brief instant today, let’s all join the same camp—the “sound-investment” camp. There are undoubtedly many good business folks in this room, who know that analyzing the quality of an investment means thinking critically, asking questions, and making decisions based on objective information rather than emotion and rhetoric.

What’s at stake you ask? Who cares? Let’s take a look at the numbers.

Costs of Jail:

- In 2007, Canada spent \$3.5 billion incarcerating people.
- On average, the cost to incarcerate one prisoner is \$75,463 per year.
- The average cost to house a federal inmate (someone sentenced to two years or more in prison) is much higher: \$108,244 per year.

With the kind of multi-billion dollar investment already in and the dramatic increases contemplated with the “crime agenda,” we should be confident that the allocation of dollars is effective. There is very current credible research on the impact of imprisonment on crime rates.

What the Research Shows

Criminology research calls into question claims that harsher sentences and greater reliance on incarceration deters crime.

A 2009 study from the Netherlands looked at data from the Netherlands-based Criminal Career and Life-course

Study to examine the effect of first-time imprisonment on conviction rates in the three years immediately following the year of imprisonment. The study found that first-time imprisonment is associated with an increase in criminal activity.

A 2009 review of the research literature found that the great majority of studies point to a null or “crime-increasing” effect of the prison experience on subsequent offending. There are a number of explanations for this result. Being in prison may increase crime by making crime seem more acceptable, decreasing the stigma of offending, creating opportunities for people to associate with others who are likely to offend, or by decreasing legitimate opportunities for offenders.

In a comprehensive review of 25 years of research, Anthony Doob of the University of Toronto Centre of Criminology concluded that there is no convincing evidence to suggest that crime can be reduced by harsh sentences.

What is particularly noteworthy is there is little or nothing going the other way. You will hear of no serious empirical study that suggests the opposite: mandatory minimums and/or harsh sentences reduce crime rates.

The U.S. Experience

A familiar chord that is struck is that we are increasingly becoming crime-ridden like American cities to the south. Those pushing hard with the “crime agenda” speak of a need to “take action” to protect ourselves. Assuming they are right, that we are getting closer and closer to American style crime problems, shouldn’t we be asking what our neighbours to the south who have experienced these crime issues over decades are doing and what they are spending their money on?

The answer is that two of the largest American jurisdictions, California and New York, are now pulling their investments in the bigger and tougher jail philosophy.

They have determined that it is not sound fiscal policy. They have figured out that it is a bad expenditure of tax dollars.

Let me explain.

In the early 1970s, the U.S. had experienced relative stability in imprisonment for at least half a century, with rates of incarceration hovering around 100 state and federal inmates per 100,000 population.

However, shortly thereafter, a sea change transformed penal policy in the U.S. Over the next four decades, the incarceration rate rose more than fivefold from 96 per 100,000 in 1970 to 501 at year-end 2006. Counting those housed in jails, the nation's total incarceration rate surpassed 750 per 100,000.

Between the mid-1970s and the mid-1980s, every American state but one enacted at least one new mandatory penalty law.

The effects on incarceration rates in the U.S. are astounding. In absolute terms, the number of state and federal prison inmates jumped from below 200,000 in 1970 to over 1.5 million in 2008. When those held in local jails and other secure facilities are added, the daily count exceeds 2.3 million.

In contrast, in Canada, the imprisonment rates have been stable over the last 30 years.

If increased reliance on imprisonment had a deterring impact on crime, you would expect to see extreme divergences in crime-rate patterns between the U.S. and Canada. However, this is not the case.

There are difficulties in comparing U.S. vs. Canadian crime rates because they are not measured in the same way. Homicides, however, are comparable. A comparison of homicide rates between 1960 and the present shows that U.S. homicide is more or less constantly about three times Canada's. But the shape of the curves is the same notwithstanding very different patterns of imprisonment.

The Cost

In 2006, \$68,747,203,000 was spent on corrections in the United States. The average annual operating cost per state inmate in 2001 was \$22,650, or \$62.05 per day; among facilities operated by the Federal Bureau of Prisons, it was \$22,632 per inmate, or \$62.01 per day.

The harmful effects of imprisoning large numbers of people from a community extend beyond those incarcerated and their immediate families. The communities themselves can show the impact of high imprisonment policies—poverty, family break up, increases in sexually transmitted diseases, higher rates of teen pregnancy, and lack of confidence in the criminal justice system.

In the U.S., one in every 99.1 adults is in custody. For African-American men, aged 20–34, one in nine is incarcerated. It is estimated that one-third of all Black males will spend time in a state or federal prison during their lives.

California

In California, the “three-strikes” laws and other crime initiatives focusing on harsher sentences have resulted in a full-fledged crisis for the prison system. The California justice system houses approximately 170,000 inmates in 33 prisons and 12 community correctional facilities and has an annual budget of roughly \$10.6 billion.

Of California’s budget, 11 per cent goes to prisons and only 7.5 per cent to higher education.

Even with this massive budget, overcrowding and serious deficiencies in prison conditions led to the system’s medical-care system being turned over to a federal receiver and its mental-health system to a special master. In August 2009, a panel of federal judges ordered the state to reduce its inmate population by 40,000 within two years.

This troubling ratio has led Schwarzenegger to announce his plans to push for a constitutional amendment that would prohibit the percentage of the state

budget earmarked for prisons from exceeding what is set aside for its public university system.

He has also announced since 2006–2007 a greater emphasis on rehabilitation programs, going so far as to add the word “Rehabilitation” to the title of the California Department of Corrections.

New York

New York State has gone the furthest. In April 2009, Governor David Paterson signed legislation enacting real reform of the “Rockefeller Drug Laws.” These were statutes adopted in 1973 dealing with the sale and possession of drugs. Under these laws, the penalty for selling 2 oz. or more of heroin, morphine, opium, cocaine, or marijuana, or possessing 4 oz. or more was 15 years to life in prison and a maximum of 25 years to life in prison (same as second-degree murder).

New York State began to reform its drug sentencing laws in 2004, and has brought in reforms in three waves. The 2004 legislation set up a new sentencing system for drug-law crimes. Instead of “indeterminate” sentences with both a long minimum and a long maximum term, a new status contained a set of shorter flat “determinate” sentences.

Certain categories of sentenced offenders serving time in prison were permitted to apply to be re-sentenced in accordance with the terms of the new determinate sentences. In 2005, the categories were expanded.

The most significant amendments were brought into law in April 2009. The 2009 reforms eliminated mandatory prison sentences for most drug offences, expanded drug courts and other alternatives to incarceration, reduced penalties, and expanded the categories of offenders permitted to apply for re-sentencing.

A study released three weeks ago demonstrates that the reforms have already achieved results. The Legal Aid Society found that the recidivism rate was lower than the

rate for those serving drug offences that were released in the usual way after serving their sentences. The people released so far have proven to pose a low risk to the community. Early release from prison has not only created considerable cost savings (estimated at \$41 million to date), but has also resulted in a very low rate of return to prison. The data supports the legislative judgment that the old drug law sentences were excessive and longer than necessary to protect the community.

Nonetheless, Canada has increasingly modeled itself on U.S. mass imprisonment models.

Successive Canadian governments have made harsher sentences a cornerstone of criminal justice policies.

According to a January 29, 2010, press release by the Conservative Party, "Since first elected in 2006, our Conservative government has taken action for the safety of Canadians and their families. The record shows that under the leadership of Prime Minister Stephen Harper, our Conservative government is serious about getting tough on crime."

A significant percentage of the legislative work done by the Conservative party involved the criminal law. In the last session of Parliament (January 26, 2009 to December 30, 2009), the Conservative party put forward a total of 63 bills. Of these, 20 related to criminal law (31 per cent). Of the 20, only two were passed before Parliament prorogued.

Bill C-14 received royal assent on June 23, 2009. It provides that any murder committed in connection with a criminal organization is "first-degree murder"; creates offences of reckless discharge of a firearm, assaulting a peace officer with a weapon, causing bodily harm to a peace officer, and aggravated assault of a peace officer.

Bill C-25 ("Truth in Sentencing Act") limits the credit given for pre-trial custody.

Eleven of the 20 bills would result in longer sentences and a larger prison population. Four of the bills would cre-

ate new mandatory minimum sentences (one of which received royal assent—Bill C-14 with its new mandatory minimum for “reckless discharge of a firearm”).

The government put forward these initiatives with the claim that they would tackle crime and make us safer. The research simply does not support such claims. They will increase prison budgets in two ways: increasing the prison population and lengthening the amount of time spent in prison.

It is not the Conservative party alone that is responsible for this trend. The trend to introducing mandatory minimums and legislating harsher sentences started under the Liberals, and could not continue today without the support of other parties. In fact, the two crime bills that received royal assent each passed third reading in the House of Commons unanimously.

The introduction of 20 crime bills gives the impression that there is a serious and threatening rise in crime. In reality, crime rates are decreasing, and have been decreasing for years. According to the latest figures, crime in Canada continued to decline in 2008, with both the “traditional crime rate” and the new “Crime Severity Index” falling 5 per cent—meaning that both the volume of police-reported crime and its severity decreased. Violent crime also dropped, but to a lesser extent.

This was the fifth consecutive annual decline in the crime rate.

Youth Crime

Trends in youth crime have been slightly different than the national averages. While the youth crime rate has remained relatively stable over the past decade, there was a 3.3-per-cent increase in 2006, followed by a 1.5-per-cent decline in 2007.

Increases in youth crime are accounted for almost entirely by a rise in violent crime rates among youth, including firearms-related offences. In contrast, property

crime rates were down and the overall rate of youth crime was 6-per-cent lower than a decade earlier and 25 per cent below the peak in 1991.

About one in 10 youth crimes occurred on school property. This is consistent with the findings of the School Community Safety Advisory Panel that I chaired following the shooting death of Jordan Manners at a Toronto high school.

In our report, we described an alarming increase in the presence of guns at Toronto schools. However, we argued that the solutions did not lie in a blind application of zero-tolerance policies. We recommended a multi-faceted approach that integrates a focus on discipline and equity to ensure that preventive programs were incorporated as a key element in the road to health for our schools.

Government statements about youth crime are not responsive to these realities. Even with Parliament prorogued, the government states that it is proposing new action “to help protect Canadian communities through the modification of the young offenders system.” These “modifications” would extend the punitive aspects of the youth criminal justice system by requiring adult sentences for certain offences, and grant courts the discretion to publish the names of young offenders “when the protection of society requires it.”

In Contrast, Integration and Prevention Programs have been Starved of Funds.

In contrast to the amount of government resources spent on developing harsher sentencing options, integration and prevention programs have been starved of funds.

While the cost of housing prisoners has continued to increase, the budget for rehabilitation and integration programs has decreased precipitously:

Fiscal Year: 2008–2009

Total Correctional Service of Canada (CSC) expenditure: \$2,231.3 million

Money spent on Rehabilitation and Integration programming: \$519 million

CORCAN (agency assisting with employment and employability skills): \$8.5 million

Fiscal Year: 2007–2008

Total CSC expenditure: \$1,963.9 million

Money spent on Rehabilitation and Integration programming: \$543 million

CORCAN (agency assisting with employment and employability skills): \$4.5 million

Fiscal Year: 2006–2007

Total CSC expenditure: \$1,865.5 million

Money spent on Rehabilitation and Integration programming: \$470 million

CORCAN (agency assisting with employment and employability skills): \$2.8 million

The Correctional Investigator, Howard Sapers, is the Ombudsperson for federal offenders. In addition to responding to individual complaints from inmates, he has a responsibility to review and make recommendations on the Correctional Service's policies and procedures associated with the areas of individual complaints to ensure that systemic areas of concern are identified and appropriately addressed.

According to the Correctional Investigator, internal CSC evaluation documentation suggests that the vast majority of correctional programs evaluated were cost effective. On average, every dollar spent on programming resulted in a return of \$1–8, due to earlier community releases or extended stays in the community. Offenders who complete their programs are significantly more likely to be granted a discretionary release and are less likely to re-offend following their release.

Yet, the Correctional Investigator's office has spent almost two decades raising concerns in its annual reports about the degree to which the Correctional Service provides timely and thorough programming for offenders prior to release.

While the budget for program funding has remained fairly stable for a decade, the number of those in prison increased. In the past several years, only 2 per cent of the Correctional Service's budget was spent on programming for offenders, and that percentage is decreasing.

The Correctional Investigator stated in his most recent annual report, "This Office does not think that 2 per cent of an approximately 2.2 billion annual budget is the right balance. (We note that annual expenditures on overtime are approximately double the funding allocation for core correctional programs)."

Access to and availability of programs for offenders serving shorter sentences (under four years) in maximum-security institutions is particularly problematic. As it is, programming is severely limited at most maximum-security institutions. Lockdowns, searches, and limits on movement and association place additional practical restrictions on programming in these facilities. There are lengthy wait lists for many programs. In too many cases, programs are not offered until an offender is close to his or her statutory release date.

As a result, the Correctional Investigator has stated, "[The Correctional Service of Canada] is not preparing offenders for timely and safe reintegration."

The political cycle has led to crime initiatives that are purely about political self-interest and represent a poor return on the investment.

Harsher sentences and decreasing funds for offender programming flies in the face of 50 years of lessons.

One of the most troubling aspects of this trend is that the over-representation of Aboriginal people in Canada's jails is increasing, rather than decreasing.

According to the Correctional Investigator of Canada (Annual Report 2008–2009), the incarceration rate for Aboriginal people has increased from 815 per 100,000 in 2001/02 to 983 per 100,000 in 2005/06. Aboriginal rates of incarceration are now almost nine times the national average.

Governments have created the perception that there is a problem. In fact, devoting 17 bills to crime in the course of an 11-month period sends the false message that crime rates are increasing. It is this type of irresponsible messaging that makes people feel less safe.

But the solutions have to fit into the political election cycle. This means those in power will only consider short-term initiatives that make them look tough. This problem is only exacerbated with the shortened election cycle that has resulted from repeated minority governments. Instead of working in a non-partisan way to solve the problem, the party that has the largest number of seats frantically imposes “quick-fixes” that fix nothing.

Some of the impetus arises from a genuine fear about increasing gun murders in Toronto and Vancouver, although it should be noted that homicide rates are not actually increasing, just certain types of homicides.

The responses are extremely expensive, ill-considered and are only making more hardened criminals.

If the government is truly concerned about rising gun violence, it ought to take steps to keep guns off the street. Incredibly, the current government is not only unwilling to bring in gun control measures, but for politically expedient reasons—i.e. to keep votes in rural areas—last year it sought to shut down the gun registry, a tool that police organizations across the country have praised as an effective tool in the fight against gun crime. Two bills to eliminate the gun registry—one before the Senate and one before the House of Commons—were quashed when Parliament was prorogued. It is widely anticipated that

when Parliament resumes, the government will renew these efforts.

The Canadian Association of Chiefs of Police is a staunch supporter of the gun registry. Police in Canada check the gun registry more than 10,000 times a day.

Since the registry was created in 1998, police have used it over seven million times. The gun registry has provided over 7,000 sworn statements to support the prosecution of firearms-related crime. These documents help support the arrest of criminals, often before they commit violence. They can also support the seizure of illegal guns, disrupt gang activity, and help prevent theft, violence and home invasions. If this information disappears, judges and justices of the peace will have less information before them, which will mean less support for arrest and search warrants that police need to keep our communities safe.

How open are those in power to hear critical thinking? During hearings before the Public Safety Committee in 2005, General Counsel for the Department of Justice, David Daubney, warned the committee about the legality of proposed mandatory minimums for indictable gun offences.

It's the view of the department that Bill C-215 raises serious constitutional and policy concerns. ... The research is clear—and it's both Canadian and American—that longer and harsher sentences have no deterrent effect on reoffending. On the contrary, longer sentences are associated with greater recidivism rates. I quote in this regard a 2002 Solicitor General Canada examination of 111 studies involving over 442,000 offenders in both the United States and Canada—probably the largest meta-analysis anywhere in the world—that shows sentences of more than two years led to an average increase in reoffending of 7 per cent.

Vic Toews, then-Justice critic for the Conservative Party, now our newly appointed Minister of Public Safety,

responded with an extraordinary attack on Department of Justice lawyers and constitutional standards of proportionality and fairness in sentencing:

“What we have in this country, unfortunately, is a Department of Justice that keeps on apologizing for criminals, that doesn’t go into the courts and stand up and say that this is disproportionate—disproportionate to the rights of victims.

...What we need is a Department of Justice that will walk into court and say to the judge that this is the situation today on the street, and we will defend these laws and we won’t talk about principles like proportionality or totality, which are parliamentary norms that can be changed by this legislation; they don’t need to be there.

...the only way you’re going to get this bill passed is a new government, or else some of these people on the other side of the table here will have the courage to stand up against their Minister of Justice and say we’ve had enough of this proportionality nonsense; we will defend the victims, and we will pass this kind of legislation through committee and have a full vote on it in the House.”

This exchange demonstrates a politician motivated by politics rather than legal principle.

All signals are that trends towards harsh sentencing principles and punitive law-and-order policies will be Canada’s public policy for years to come. Just a few days ago, the Conservative Party justified the appointment of five new Conservative senators by stating that they were making Canada safer. In a Conservative Party press release, Prime Minister Harper was quoted as saying:

“Our government is serious about getting tough on crime. Since we were first elected, we have made it one of our highest priorities ... The Liberals have abused their Senate majority by obstructing and eviscerating law-and-order measures that are urgently needed and strongly supported by Canadians. These new Senators are com-

mitted to community safety and justice for the victims of crime ... I look forward to working with each towards making our communities safer and protecting families from crime."

Bob Runciman (one of the new senators) was quoted in the *Star* on January 30 saying: "For too long, the Ignatieff Liberals have abused their majority in the Senate by obstructing law-and-order bills that are urgently needed and strongly supported by Canadians. Today that comes to an end."

What was once a Senate of unelected patronage appointments that ought to be abolished has now transformed into an effective crime-prevention strategy.

What does Work—Prevention and Integration

It is challenging to attract any real attention to solutions in the area of justice reform that are not "quick fixes." Yet, what is clear from the empirical data presented and recent American experiences, a vision that simply contemplates jailing more and more people for longer periods of time does not keep us safer and leads to extraordinary financial waste. California and New York are prime examples of a reversal in thinking in the aftermath of an unrestrained and unrealistic use of prison. Governor Schwarzenegger and other American leaders are seeking to undo the damage the "tough-on-crime" agenda has caused.

What does work? A realistic combination of social discipline (imprisonment if necessary) along with programming within the prison system aimed at bringing offenders back into society as law-abiding people. Equally important are preventive measures aimed at reaching people in their crucial formative years and addressing inequality.

The literature establishes that prevention and integration strategies can work. Predictably, these measures are not quick fixes so they are not geared to the short elec-

tion cycle where politicians are looking for quick fixes to prove they are tough on crime.

Prevention (examples)

Crime can be substantially reduced by providing nursing support to mothers during pregnancy and for the first two years of a child's life.

Provinces in Canada and states in the U.S. that have the highest degree of economic inequality also have the highest homicide rates. Given the economic inequality is partially under the control of social policies (e.g. employment insurance, social assistance), government social (and economic transfer) policies may be important tools in addressing violence.

Integration (examples)

Strong ties between prisoners and their families or close friends appear to have a positive impact on post-release success. As such, some jurisdictions have effectively invested in programs that work directly with the family members of inmates and provide special services to them.

A 2007 study of the "Circles of Support and Accountability" (COSA) program offered in parts of Ontario demonstrated that structured supports can reduce recidivism amongst sex offenders. The group provides support and attempts to help the offender follow a written set of rules. The group also provides help with issues that arise as the offender re-enters society. The study compared recidivism rates of 60 sex offenders who participated in the program with 60 comparable sex offenders who did not. Only 5 per cent of the COSA group was charged with committing a sexual offence during the 4.5-year follow-up period, far lower than the 17 per cent from the comparison group. Similarly, the rate of violent recidivism for the COSA group (15 per cent) was less than half the violent recidivism rate for the comparison group (35 per cent).

Taking the Politics out of Punishment

Cut the pretence. If the government's priority is simply to punish people for crimes, it should just say so and accept the expense.

But if the goal is to invest in making Canada safer and to address real problems with the criminal justice system, there are steps that can be taken that will have a return. Reflex law-and-order initiatives will not.

There are real problems with the criminal justice system in Canada. It is a problem that there are more people in pre-trial custody than there are sentenced offenders because of the time it takes to get to trial. It is a problem that there is incredible sentencing disparity such that two people with the same sentence of incarceration could end up spending wildly different times in jail depending on factors such as how crowded the penitentiary is.

There aren't any easy answers that will reduce crime. There needs to be a collaborative effort in the justice industry to develop a vision—and buy in—based on sound and informed public policy and mutually shared goals.

Crime-prevention policies take decades to bear fruit, rather than the months or years that make up the election cycle. Tough-on-crime initiatives cater to the election cycle but accomplish little else.

Rather than looking south for solutions, we should preserve those things that Canada has done right—a better social safety net and a commitment to social equality. Tough-on-crime approaches drain money away from the places it is needed and where we can get a real return on our investment.

The appreciation of the meeting was expressed by Reverend Dr. John Niles, Past President, The Empire Club of Canada, and Senior Minister, St. Andrews United Church.



February 25, 2010

Senator Art Eggleton

Chair, The Standing Committee on Social Affairs,
Science and Technology

IN FROM THE MARGINS: A CALL TO ACTION ON POVERTY, HOUSING AND HOMELESSNESS

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Alan Broadbent, Chairman and CEO, Avana Capital Corporation; Heather Ferguson, Director, The Empire Club of Canada, and Executive Director, The Hearing Foundation of Canada; Camille Bacchus, President, Bacchus Medical Communications Inc.; Kathleen Thomas, Vice-President, Risk and Control, The Dominion of Canada General Insurance Co.; Dr. Rick Tobias, President and CEO, Yonge Street Mission; Marc Reeve-Newson, Director, The Empire Club of Canada; Gail Nyberg, Executive Director, Daily Bread Food Bank; and Colette Murphy, Community Program Director, Metcalf Foundation.

Introduction by Alfred Apps

Art Eggleton

I feel like I am part of a movie remake.

In his address to the Empire Club on January 27, 1972, Senator David Croll talked about the report of the Special Senate Committee on Poverty. And here I am 38 years later on the same subject following another senate committee report, which is the most extensive examination of these issues by a parliamentary committee since Senator Croll's report. While some things have changed, much too much remains the same.

In 1972 Senator Croll said, "It was obvious that the poor do not choose poverty. It is at once their affliction and our national shame. Unlike the poor of earlier days, they know how poor they are, and so they face the future with little hope and mounting anger. The children of the poor (and there are many) are the most helpless victims of all, and find even less hope in a society whose social-welfare system from the very beginning destroys their dreams of a better life."

Still true today.

He also said, "We are pouring billions of dollars every year into a social-welfare system that merely treats the symptoms of poverty but leaves the disease itself untouched."

Also still true today.

Underlying our report, in fact both reports, is a simple, common-sense idea: social programs should help lift people out of poverty, not keep them there; it is time to give people the tools they need to lift themselves out of poverty.

I actually think that now, as we emerge from hard times, is an appropriate time to confront hard truths about poverty and homelessness in this country, about the kind of society we want to have, and about getting better value for the taxpayers' dollars.

The hard truth is that poverty costs all of us. It forces up our tax bills, depresses the economy, increases health costs and can breed alienation and crime.

Now, it's not as if we're not doing anything about poverty. According to Statistics Canada, we spend \$150 billion every year in federal and provincial transfer payments to individuals. That doesn't include education and health-care costs. So what are we getting for our \$150 billion? The short answer is not enough.

Over the past two years, our committee held more than 35 hearings, hosted five roundtables and visited 20 agencies in nine cities across Canada. We had the opportunity to hear from close to 200 witnesses, some living in poverty and/or homeless themselves, others working for community agencies or serving as analysts in universities and voluntary organizations.

And quite frankly, what we heard was shocking. We found that a staggering one in 10 Canadians lives in poverty. That's 3.4 million people—the equivalent of every man, woman and child in Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island and Saskatchewan combined.

For these people—our fellow citizens—every day is a battle with insufficient income, unaffordable housing, inadequate clothing and unsatisfactory nutrition. Every day brings wrenching decisions—whether to buy groceries or pay the rent; whether to buy new shoes for the kids or make the mortgage payment; whether to drop out of school and get a job to help the family. Just struggling to get by, these families can't even dream about getting ahead.

What's particularly disturbing is that approximately 800,000 of those living in poverty are children—a statistic that is all the more deplorable given this Parliament's commitment, in 1989, to eliminate child poverty by the year 2000. Instead, we have hardly made a dent—with double-digit rates of child poverty in most provinces.

Those numbers on child poverty are not just sterile statistics. They are a flashing red light. We know, for example, that a child born into a poor family has a greater chance of dying in infancy and that if he lives, is likely to have a lower birth weight and more disabilities.

As they grow, they are more likely to suffer from poor nutrition and poor health. They'll miss more school and slowly, but surely, fall further and further behind. Not surprisingly, they are less likely to do well and are more likely to drop out.

As adults, they are more likely to have higher rates of chronic illnesses such as coronary artery disease, Type II diabetes, respiratory problems and some cancers. With a poorer education, they will earn less, pay less in taxes, be less-productive workers, have more health problems and use more social services. And they are more likely to die at a younger age.

Beyond the harsh realities of daily life lived in poverty, we also discovered something else—something more systemic. We saw that decades of social policymaking by all levels of government—well meaning as it may have been—have resulted in two equally devastating results.

First, even when all of the programs are working as they should, and people are getting all possible income and social supports, the resulting income is often only enough to simply maintain them in poverty. In other words, rather than being lifted out of poverty, into a life of full participation in the social and economic opportunities of their communities, government programs have only kept them poor.

Second, at their worst, existing policies and programs actually entrap people in poverty, creating unintended but nonetheless perverse effects that make it almost impossible to escape the reliance on income security programs or homeless shelters.

One hundred and fifty billion dollars a year and with almost three and a half million people living in poverty

including 800,000 children. Any corporation that spent \$150 billion on a project without achieving its goals would conclude it needs re-working. We should too.

There are some good signs however. During our work, we found examples of promising practices and programs, largely community-based, that actually do work, that do lift people out of poverty and homelessness, and that do break the cycle of poverty. We identify—and celebrate—these initiatives in our report.

But sadly, these examples are pockets of promise in an otherwise dysfunctional system that must be overhauled.

Our committee studied the whole range of income-security programs, from tax breaks to social assistance, Employment Insurance to Old Age Security and the Guaranteed Income Supplement for seniors, and we make a number of specific recommendations for improvement.

On Employment Insurance—EI—we recommend a new program to insure against income losses due to long-term employment interruption, covering those that are not presently covered under the EI Act, including new workers, part-time workers, those who have been unemployed for an extended period, recent immigrants, and the under-employed.

We have also suggested a number of specific changes to EI to make it both fairer and more effective.

Taken together, these recommendations for improving EI would expand opportunity, reduce inequities and help more Canadians get over the hump of unemployment and back on their feet.

On training, as you well know, success in today's fast-moving job market often depends on having the right skills. Simply put, there is a clear connection between the level of education achieved and the level of income received. Yet, here we found a classic catch-22. For many, poverty keeps them from acquiring the kind of education and training they need. And their lack of skills keeps them from getting the jobs that would lift them out of poverty.

Breaking this cycle is critical—and it begins in the earliest years of life.

Study after study confirms that children who arrive at school ready to learn become adults prepared to succeed. Among our recommendations, therefore, is a nation-wide, federal-provincial initiative on early childhood learning.

We also witnessed firsthand the importance of middle-school support for vulnerable children and for high-school completion as well as for literacy upgrading for adults—and skills building at every age.

That is why we propose offering additional tax support for post-secondary education for students in groups, like aboriginals, that are under-represented in those institutions as well as for initiatives that keep young people in poor neighbourhoods in school.

We also looked at health because there is a strong connection between being poor and having poor health.

In fact, according to Statistics Canada, poverty reduces life expectancy more than cancer! Think about that! Think about the profile cancer has in our society. The runs for the cure, anti-smoking campaigns. All worthwhile and all important. But if we really want to save or extend lives, we'd also be doing a lot more about poverty.

We also looked at the income transfers that take place through the tax system. Part of the problem, of course, is that most credits and deductions are available only to people who have enough income to pay taxes. While some credits are now refundable much remains to be done to make the system fairer.

We've seen examples of tax credits that work well. The National Child Benefit Supplement, for example, is putting money into the hands of low-income individuals and households. And, as a critical step to eradicating child poverty, we propose increasing the National Child Benefit to \$5,000 by 2012 from the current level of \$3,400.

The Working Income Tax Benefit, which supplements earnings for those with very low incomes, is another tax measure that holds promise by “making work pay.” We recommend increasing this benefit so that no recipient would fall below the poverty line.

Because our seniors deserve dignity in their retirement, we also recommend increasing the Guaranteed Income Supplement so that none falls below the poverty line.

A quick word on those struggling with disabilities. As a group, persons with disabilities are highly marginalized. They face exclusion from quality education, have lower employment rates, and are more likely to be poor. And yet, there is no co-ordinated policy response to the poverty of persons with disabilities. It’s a hodgepodge of programs.

We believe that what’s needed is to provide a basic income guarantee for people with severe disabilities. Just as the Guaranteed Income Supplement lifted tens of thousands of seniors out of poverty, a guaranteed income for those with disabilities would immediately take about a half a million people off social assistance rolls. It’s the right policy, at the right time.

Let me turn briefly to housing and homelessness.

I think all of us understand intuitively the importance of having decent shelter. A home anchors a person, a family, provides the foundation for higher educational attainment and leads to greater stability in the work place.

Health experts also tell us that adequate housing is a key determinant of health and long-term health outcomes. Someone who does not live in a decent neighbourhood, who is not close to services, who is poor, has a level of health that’s about half that of someone who does have those resources.

Today in Canada, three million people are struggling to find affordable housing. And by “affordable” I’m using

Canadian Mortgage and Housing Corporation's standard rule of thumb of about 30 per cent of income going to housing that is adequate, accessible and in suitable condition.

We need to do better and we need leadership from the federal government.

Specifically, with respect to housing, we recommend adequate—and sustained—funding through the Affordable Housing Initiative to increase the supply of affordable housing.

We need to make the Residential Rehabilitation Assistance Program permanent. And we need to make housing programs longer-term—both to reflect planning and development time lines and to allow for more effective planning at the local and provincial levels.

With respect to homelessness, the committee heard that it is more expensive to leave someone on the street than to provide him or her with decent housing and support services. In his testimony to the committee, the Executive Director of the Downtown Eastside Residents Association in Vancouver said "...if you want to talk about money, it costs \$48,000 a year to leave someone on the street. It costs \$28,000 a year to house them."

In addition to a compelling moral argument, the economic arguments with respect to homelessness are even more persuasive.

We also need to do a better job of integrating our approach to housing and homelessness. At the moment, we have a patchwork quilt of programs across the country. Some work well; others do not. It's time for the federal and provincial governments to finally come to grips with this issue and develop a national housing and homelessness strategy.

Finally, the committee noted that some groups are over represented among the poor—unattached individuals (particularly between 55 and 65), persons with disabilities, aboriginal people, some newcomers to Canada

(recent immigrants and refugees), and lone parents—mostly lone mothers, the homeless, high-school dropouts, and people with limited literacy skills. They are the most vulnerable in our society.

We must ensure that we have programs and policies in place that provide hope for those people, that give people a chance, an opportunity, with a commitment to education, training, and employment as a way out of poverty and into their place in jobs, schools and communities where they can benefit from opportunities that must be available to all.

And you know, it's not a matter of spending more. It is a matter of spending smarter.

Now, I realize that today I have covered a lot of ground and mentioned a lot of recommendations. But beyond all of the detail is a simple compelling message: poverty is both a moral issue and an economic imperative. It is not benign. It affects us all. It costs us all. And it diminishes us all.

In 1961, President Kennedy warned, "If a free society cannot help the many who are poor, it cannot save the few who are rich." He understood that no nation, however powerful, could ignore the plight of its most impoverished citizens; that no country, however prosperous, could afford to forego the contribution that millions could make, given half a chance.

In today's global economy, the importance of creating those opportunities, of unleashing the creative contribution of those trapped in poverty, is more important than ever. In a very real sense, the future level of our prosperity depends on addressing the current level of our poverty.

But wishing won't make it so. It is not enough simply to raise the alarm. We must rouse ourselves to action. It is my hope that our committee's report will do just that.

The appreciation of the meeting was expressed by Heather Ferguson, Director, The Empire Club of Canada, and Executive Director, The Hearing Foundation of Canada.



Major General (retired) Reginald Lewis, Past President, The Empire Club of Canada, and Senator Art Eggleton, Chair, The Standing Committee on Social Affairs, Science and Technology.



March 3, 2010

Gwyn Morgan

Founding President and CEO (Retired), EnCana Corporation

TILTING AT WINDMILLS: FALSE GREEN BULLETS, POLITICAL POSTURING AND CANADA'S ENERGY FUTURE

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Catherine Swift, President and CEO, Canadian Federation of Independent Business, and Director, The Empire Club of Canada; Stephen Clarke, Vice-President, Marketing, Walton Wealth Management; Miguel Barrieras, Senior Vice-President and National Head of Business, HSBC; John Manley, President and CEO, Canadian Council of Chief Executives; Vivian Prokop, CEO, Canadian Youth Business Federation, and Director, The Empire Club of Canada; Rev. Michael Clarke, Associate Priest, Christ Church, Brampton; Dino Medves, Senior Vice-President, Commercial Banking, Eastern Canada, HSBC; David Reid, President, Ontario Energy Network; Bill Robson, President and CEO, CD Howe Institute; and Paul Mondell, Regional Vice-President, Ontario, Walton Development and Management.

Gwyn Morgan

Thank you.

I think of life in terms of chapters. Chapter one for me was the early years as an Alberta farm kid and then going off to get my engineering degree. Chapter two was mostly taken up by three decades of working to build the company that became EnCana. And as much as those decades were wonderfully challenging and fulfilling, moving on to chapter three has opened up a whole new set of opportunities without the load of a major corporation on my shoulders. Speaking of the load on a CEO's shoulders takes me back to October 25, 2005, exactly 30 years after I had joined start-up Alberta Energy Company. That was the day I chose to tell EnCana's board that it was time for me to hand over the reins. After the meeting, I was walking down the hall when one of my board members stopped, looked me up and down and said, "You look taller."

Chapter three is full of interesting involvements. A big part of the motivation in building EnCana is my belief in the crucial importance of strong Canadian headquartered international companies. That's why I'm proud to serve as Chairman of Montreal based SNC-Lavalin, one of the world's leading engineering and construction companies with projects in 100 countries. London-based HSBC Holdings is the world's largest global bank with operations in 84 countries. HSBC has built a global reputation for integrity and service that is exemplified by the people at HSBC Canada. And being on the board of the most global bank during this financial crisis has certainly given me a fascinating insight.

So my years in the energy industry are behind me. Yet those years have given me a perspective from which to evaluate the current state of Canada's energy picture,

including the government policies that so profoundly impact it. And the title of my talk, “Tilting at windmills: false green bullets, political posturing, and the future of Canada’s energy industry” gives you a glimpse of what’s to come. But let’s start with a little energy history.

In the early 19th century, while a young Charles Dickens toiled for six shillings a week in a decrepit London boot-blackening factory and went home to a darkened room, the wealthy enjoyed the fragrant glow of spermaceti oil candles burning in their chandeliers. This remarkably clear and aromatic oil was harvested from the huge head of the sperm whale, driving the creature of Moby Dick fame toward the brink of extinction.

The beginning of the end of the whale oil age came in 1858, when James Miller Williams managed to produce what was then called “natural rock oil” from a well near the present-day Ontario towns of Oil Springs and Petrolia. The following year, in Titusville, Penn., Edwin Drake filled a 42-gallon wooden whisky barrel with the first U.S. oil production. Initially, the oil was refined mainly into kerosene, and before long, kerosene lamps lit up the night in more than just the homes of the wealthy. Electric lights eventually replaced kerosene lamps, but when the first Model T rolled off the production line in 1908, Henry Ford launched the modern personal transportation revolution and fuelled it with oil. Today, the world uses over 85 million of those 42-gallon barrels of oil every day, and the U.S. Energy Administration forecasts consumption will grow to 120 million barrels by 2030.

There are important reasons to keep that from happening. Many would say reason No. 1 is the need to reduce greenhouse gas emissions, but there are also important geo-political reasons. With the exception of self-sufficient Canada, Western countries are increasingly dependent on volatile or unfriendly oil producers. And the other side of that supply-dependency coin is just as worrying—the

transfer of trillions of dollars of the West's diminishing financial resources to these same governments.

While natural rock oil came along just in time to save the whales and light up Charles Dickens' writing desk, attempts at its displacement are proving futile. A decade ago, the prospect of fuelcell vehicles powered by hydrogen emerged as the big green hyped hope. But the hydrogen highway has become a road to nowhere, owing to the cost and technical challenges of fuel-cell vehicles combined with the fact that hydrogen simply doesn't exist as a resource, but must be manufactured using either hydrocarbons or electricity.

The latest green bullet aimed at oil is biofuel, in the form of adding ethanol to gasoline and vegetable oils to diesel fuel. The ethanol production process, basically the same as for whisky, involves fermenting a cereal crop and then distilling it to produce alcohol. U.S. energy policy targets the displacement of 36 billion U.S. gallons with ethanol, a whopping 20 per cent of gasoline consumption, by 2017. Meeting this target would require the cultivation, harvesting, fermentation and distillation of enough corn and grain to produce the equivalent of 450 billion bottles of whisky a year. A sobering prospect, so to speak. Canada and the European Union have mandated somewhat less ambitious, but still substantial, levels of biofuel production.

But it turns out that this bullet is neither green nor displaces hydrocarbons. Studies show that tractor cultivation, fertilizer and alcohol distillation take almost as much hydrocarbon energy as contained in the ethanol produced, while subsidized intensive-farming practices result in the destruction of wildlife habitat and unsustainable water use.

The other biofuel is made mostly by blending palm oil with mineral diesel to produce bio-diesel. Borneo is a great place to produce palm oil, if you first burn down a large part of one of the world's most important rain

forests. My wife and I experienced this firsthand. The air was blue with smoke as thousands of square kilometres of rain forest, home to endangered Orangutan and little disturbed aboriginals, went up in flames. How desperately ironic it is that this is occurring in the name of helping the environment.

And then there is the emotional “food or fuel” debate, fingering biofuel as an increasing threat to food supply for the world’s poorest and most vulnerable. The “renewable fuel” solution has become a “food for fuel” moral and social pariah. A UN food envoy calls biofuels “a crime against humanity.” In the face of this growing firestorm, American and Canadian politicians are stubbornly defending their biofuel laws along with subsidies for the farmers and distillers. False green bullets are hard to stop once they’ve been fired.

The latest green bullet that’s supposed to displace oil is the electric car. The auto companies have already shown off their line-up of concept cars. But will the electric car craze follow hydrogen down the highway to nowhere? Maybe not, but there are some realities that will surely limit their growth. The first is battery physics. Despite decades and billions spent on research, it takes a heavy and very expensive battery pack to propel a car over even limited distances. The second is poor power plant to wheel energy efficiency. Energy losses start when the electricity is transported from the plant to the car plug. Then comes battery loss. It takes significantly more electrical power to charge a battery than comes back out to drive the car. And more energy is lost when electric motors convert that electrical power to mechanical power driving the wheels.

This is why, in the vast majority of scenarios, gasoline or diesel hybrids deliver higher efficiencies than electrics. And hybrids have one “small” additional advantage: you can always get to where you’re going, and back home again.

Finally, there is the fact that North America's electricity transmission and distribution lines are old and already stretched to the limit. Building enough new ones to power-up even a portion of the auto fleet would take hundreds of billions of dollars.

But physics and other details like cost and practicality have never stopped politicians from knee-jerk pursuit of the latest green bullet. Last summer, soon after the auto bailouts, Premier Dalton McGuinty travelled to a General Motors dealership to announce an electric car subsidy that includes \$10,000 towards the purchase price for his government's fleet and special "green" licence plates allowing travel in transit system lanes. Ignored by Mr. McGuinty's rhetoric are authoritative full energy-chain studies that show hybrids such as the Ford Fusion, Honda Insight and Toyota Prius are "greener" than the Chevy Volt.

The bottom line is that oil is a very difficult fuel to replace, and the alternatives tried so far have been ineffective or damaging. Yet, continuing growth in world oil consumption is a recipe for environmental stress, financial dependency and supply vulnerability. It is a basic human trait that we seldom change our habits if we can find any excuse not to. False green bullets only delay the fundamental changes needed to just use less. But how, you may ask?

So far, the most talked about method of attempting to reduce oil consumption is to increase its cost through consumer carbon taxes and an industrial cap-and-trade system. But in Canada, provincial and federal taxes already add some 50 per cent to the price at the pump. How much is enough? And what about the impact of higher energy costs on our already beleaguered business sector?

A look at international energy-pricing policies uncovers the startling revelation that, rather than taxing fuel, countries representing more than half of the world's

population actually subsidize its use. The International Energy Agency estimates that non-OECD countries are spending over US\$300 billion a year on fuel subsidies. Not surprisingly, this group represents practically all of the growth in global hydrocarbon emissions, and they made it very clear at Copenhagen that this isn't about to change anytime soon. The subsidizers include China and India, the world's most formidable manufacturing and outsourcing powerhouses.

The hard reality is that Western economies, Canada included, are facing a fragile and uncertain economic recovery with continuing loss of manufacturing jobs. Widening the fuel-cost gap further would ensure continued economic decline. If we are really serious about reducing oil consumption, knee-jerk policy reactions must be replaced by thoughtful, holistic examination of the structural changes that will make a sustainable difference.

The biggest driver of oil use is urban traffic. Canadian and American cities sprawl ever outward, turning farmland into a paved labyrinth. Twice a day, most suburbanites get into their one-passenger vehicle to become part of a massive gridlock of emitters. And because there are no nearby shops, suburbia's homemakers drive the other car to the mall.

There is a better way, and a better life. The late Jane Jacobs, Canada's internationally recognized urban design visionary, saw the need to transform cities into denser, more community-connected spaces. The case for urban densification was also eloquently argued by former Vancouver Mayor Sam Sullivan who said: "Instead of telling Canadians to check their tyres or put energy efficient light bulbs in their suburban homes, we should be talking about how better urban planning and densification of our cities can significantly reduce our impact on the environment." My wife and I have observed that some of the world's most compact cities, such as Prague and

Stockholm, are also the most livable. And density also facilitates replacement of fume-spewing behemoth buses with silent and clean light-rail transit.

Another large oil user is long-distance freight hauling. Rail transport is more energy efficient and environmentally friendly than trucking. The big rigs are also a major traffic safety risk, and are by far and away the greatest contributor to highway maintenance costs. Yet, trucks use public highways free of charge, while railways must not only maintain their own rail-beds, but must also pay municipal taxes on them. This playing field needs to be levelled. Another idea gaining momentum is replacing truck and locomotive diesel with Canada's plentiful supplies of clean burning natural gas.

The fact is that people have to get to work and businesses need to move their goods, so mindlessly adding even higher fuel taxes just makes people poorer and businesses less able to succeed. Achieving smart, sustainable reductions in oil use requires a shared vision by municipal, provincial and federal leaders. That kind of thoughtful co-operation is sadly lacking in the knee-jerk tax-and-subsidy proposals currently on the table.

Now, a few questions to test your "energy literacy."

Oil-based fuel powers essentially all of our land, sea and air transportation. But what is the largest and fastest growing form of global energy use? If you said electricity, you're right.

And what generates Canada's electricity? Canada's hydro dams supply one of the world's highest portions at almost 61 per cent. Coal-fired power generates 20 per cent, nuclear 15 per cent, natural gas and oil 4 per cent. Wind contributes less than one-half of 1 per cent.

The very different natural-resource endowments from province to province drive big variations from these national averages. Hydro supplies almost all power in British Columbia, Manitoba, Quebec and Newfoundland. Coal dominates power generation in Alberta,

Saskatchewan and Nova Scotia. Coal, hydro and nuclear provide New Brunswick's and PEI's power. Ontario's top source of power generation is nuclear, followed by hydro and coal.

The cost of electrical power is embedded in virtually everything we produce and consume. And in a globalized economy, the cost of electricity is a major competitive factor for Canadian exporters. China already has a significant power-cost advantage because of its cheap (and dirty) coal-fired plants.

As in the case of oil, governments have devised costly green-bullet policies aimed at lowering electrical-generation greenhouse gas emissions with highly questionable environmental benefit.

Let's look at this province first. The current wholesale price of power is less than five cents per kilowatt hour. Ontario's new "green power" plan offers 13 cents for land-based wind farms, 19.5 cents for offshore wind and biogas projects, and up to 80 cents for solar power. That's a whopping 2.6 to 16 times the current average power cost. The cost implications for households and businesses caused the Ontario Power Authority to resist the government's green power plan, prompting the provincial minister of energy to "direct the OPA" to authorize the subsidized rates. There appears to be no stopping Ontario's gilded green-power bullet.

British Columbia has a similar green-power plan, providing subsidized rates for wind, biomass, geothermal and "run-of-the-river" power projects. The cost implications caused the B.C. Utilities Commission (BCUC) to reject the inclusion of the subsidies in B.C. Hydro's rates. The provincial government has vowed to override the decision of the very experts it has appointed to safeguard the public interest.

These green bullets have been fired, but what about the reliability of green power? An interesting aspect of the BCUC's decision to reject the government's green-power

plan was the need to retain a standby natural gas-fired power plant to meet load requirements during low wind conditions. Thus, wind power is not only more expensive to generate, but its lack of dependability requires costly redundant standby facilities.

And as for Ontario's huge subsidy that is supposed to turn Ontario into a shining beacon of global solar power research and manufacturing, if it were my money I'd bet on the sun-bleached Great American Desert states of Nevada and Arizona to have more than a small edge in that race.

But if wind and solar power are costly and unreliable, what are the low-emission alternatives to coal?

Natural gas-fired power plants produce much lower emissions than coal, but the zero-emissions alternative is nuclear. Yet the same non-governmental organization's clamouring for emissions reductions oppose nuclear development. Canada's nuclear technology is one of the world's safest and it's uniquely able to use spent fuel from other global reactors. Saskatchewan is home to one of the world's largest reserves of uranium. Yet while implementing wind and solar subsidies, B.C. has slapped a ban on uranium exploration, and Nova Scotia recently followed suit. Both provinces cited "public resistance" to nuclear power. These sorts of knee-jerk "greener-than-thou" policies are both divisive to our national unity and destructive to our international reputation.

Speaking of national unity and our international reputation, the award for the most divisive and destructive performance at the recent Copenhagen Climate Summit goes to the environment ministers for Ontario and Quebec, along with the mayor of this city. Ontario Environment Minister John Gerretsen and Quebec Environment Minister Line Beauchamp held a joint news conference to state that the Canadian government's emissions reduction targets are "simply not in line with what we are doing as provinces." And to the delight of anti-

Canada environmental groups, Mayor David Miller apologetically accepted their “fossil-of-the-day” award aimed mainly at the Canadian oil sands. Of course, the reason Canada’s reduction targets are not as ambitious is because Saskatchewan, Alberta, Nova Scotia and New Brunswick, not being endowed with Quebec’s massive water-power resources or having Ontario’s nuclear plants, must generate most of their power with fossil fuel. And also because B.C., Alberta, Saskatchewan and Newfoundland have a growing international oil-and-gas industry that creates jobs, keeps Canada’s balance of payments positive and makes us the only energy-self-sufficient G-7 country.

That Canada would come under attack at Copenhagen was predictable. What’s astounding and reprehensible is that publicly elected officials would take the international stage to promote parochial agendas while joining in the undeserved vilification of other provinces, and our country. Those of us from the West have this old-fashioned belief that, whatever disagreements we may have at home, when you go abroad you are Canadian first. And I’d wager that the vast majority of people in this province feel the same way.

False green bullets, subsidizing the hopeless and taxing the successful, dysfunctional city planning and divisive political posturing: Is there any hope for Canada’s energy future?

Well, yes indeed there is. In fact Canada’s energy-resource endowment is a huge economic advantage, if we adopt smart policies, and if we work together rather than against one another. And a new world economic order is dawning that offers both challenge and opportunity.

HSBC Chairman Stephen Green portrays the new world order as an economic triangle. Western consumer countries form one side, Asian workshop countries form another, and resource-producing nations the third. Before the recession, this model saw consumer goods bought by

the West, and manufactured in the East, using raw materials and fuel from resource countries.

In 2008, China and the oil-exporting countries registered a combined current account surplus of \$1.2 trillion exporting to western consuming countries. But how has the West paid for these imports? By going deeper and deeper in debt. The United States, together with Spain, Britain, France, Italy, Australia, Greece and Portugal, registered a total current account deficit of \$1.3 trillion.

By contrast, Canada was one of very few western countries that registered a current account surplus. Why? Because we have two sides of Stephen Green's global economic triangle. We are both an importer of consumer goods and an exporter of resources and a large portion of those exports are energy. Other G-7 countries with only the consuming side of that economic triangle face long-term secular decline in living standards. These and other debt-laden and demographically shrinking western developed countries have passed their zenith. It doesn't have to happen here, if we embrace and build on our resource strengths, rather than finding ways to weaken them.

Oil is the world's most strategic resource and the developing world is going to keep on using more. Remember that the pre-recession oil price peak of US\$147/barrel was driven by Asian growth. Oil resources are concentrated in the volatile Middle East, ideologically hostile Venezuela, violent West Africa and geopolitically ambitious Russia. You may be surprised to know that western oil companies, who some refer to as "big oil," control only about 7 per cent of the world's oil reserves.

Discovered in 1783 as oil seeps into the Athabasca River by fur trader and explorer Peter Pond, Canada's oil-sands are the most important source of production growth in a stable, developed country. The resulting scale and geographic concentration of oil-sands projects has drawn environmental concern. As usual, perspective is important. While separating and processing oilsands is

technically complex, oil-sands mining basically involves digging up the gooey sands, separating the oil and returning clean sand where the gooey sand was before. A visit to any mining project in the world doesn't make for pretty aerial photographs, but the buffalo roaming on green and treed reclaimed oil-sands mines shows the end game. The industry has made great technical strides that reduce the environmental footprint of each new project. And by the way, despite that Copenhagen "fossil-of-the-day award," Canada produces only 2 per cent of global greenhouse gas emissions, and the oil sands produce only 5 per cent of that, or one thousandth of global emissions. The oil sands have a positive story to tell. That these and other facts are poorly understood, both nationally and internationally, is a reflection of the lamentably poor job the industry has done to communicate them.

You may not know that natural gas is our biggest energy economic contributor. A recent study prepared by IHS Global Insight found that the natural gas industry employed nearly 600,000 Canadians, including 325,000 in Alberta, 112,000 in British Columbia and 99,000 here in Ontario. The big Alberta impact was expected, but it's the rapid growth of B.C.'s gas industry that may surprise you. A combination of positive policy changes under the Campbell government, combined with EnCana-led technological advancements commercializing previously uneconomic tight sands and shale, has made natural-gas lease sales and royalties the biggest industrial contributor to provincial revenues—more than the combined total of B.C.'s traditional resource mainstays of forest products, fishing and mining. Offshore gas development has long been important to Nova Scotia, and just last week came reports of a promising shale-gas deposit southwest of Quebec City.

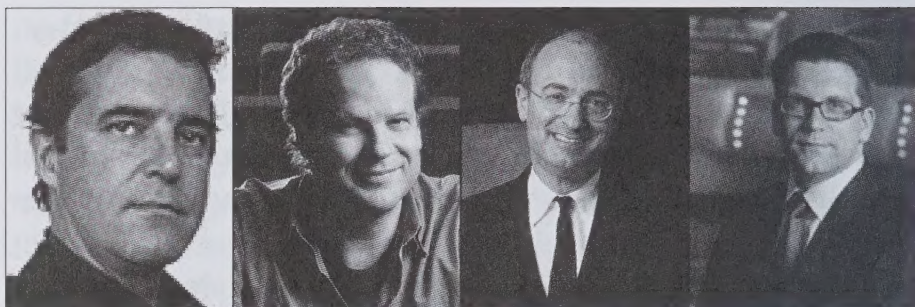
Canada is the world's largest producer of hydropower and is a major exporter of electricity to the United States. Hydro supplies a whopping 61 per cent of our electricity,

compared with only 9 per cent in the United States. Quebec is the leader, but B.C., Manitoba, and Newfoundland and Labrador have huge hydro power resource endowments. Plans are in place for substantial new hydropower projects that will put Canada even further in the lead.

Western Canada has enormous soft-coal deposits that generate much of the electricity in the hydro-short prairies, and Canada is also a major exporter of hard metallurgical coal, with China's steel mills our biggest customer.

Canada's energy resources are an enormous economic advantage. Our rich resource endowments give us two of the three sides of the New World Order economic triangle. As a nation, we need to recognize and celebrate the unique contribution of each resource region, and seize the opportunity to keep Canada one of the best places in the world to live.

The appreciation of the meeting was expressed by Catherine Swift, President and CEO, Canadian Federation of Independent Business, and Director, The Empire Club of Canada.



March 24, 2010

Andrew Gorham

Globe Review Arts Editor, The Globe and Mail

Albert Schultz

Founding Artistic Director, Soulpepper Theatre
CompanyCanada

Matthew Teitelbaum

Director and CEO, Art Gallery of Ontario

Alexander Neef

General Director, Canadian Opera Company

ARTS AND CULTURE IN THE CANADIAN ECONOMY: TIME TO PARTICIPATE OR TAKE A BOW

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Catherine Lyons, Partner, Goodmans, and Director, The Empire Club of Canada; Rev. Dr. Andrew Stirling, Senior Minister, Timothy Eaton Memorial Church; Linda Mackenzie, Director, Philanthropy, Sun Life Financial; and Janice Price, President and CEO, Luminato.

Introduction by Alfred Apps

Andrew Gorham explained the format of the meeting and opened the discussion.

Matthew Teitelbaum

I'm going to start with some advice and that is never stand next to Albert Schultz when you're singing the National Anthem because he can really sing. It makes you just stand in awe.

I do want to say that being on a panel with Albert and Alexander is a true honour for me and a real privilege. It's not often that Janice and Piers Handling are in the audience, but it's nice that you are. You're usually up here with us. When I think about the future of arts and culture in this community and across Canada, one thing that is truly different, in my experience, is the spirit of collaboration and connection between the leaders at all levels of cultural institutions. It is really different than it used to be and it's so, so important, I think, to our success.

You get a microphone and you're asked to say definitive, comparative things that paint a bold and absolute picture of the future. I'm not going to do that. I'm going to speculate on some thoughts about what I think we need to do to make our institutions stronger. I do that in the context of great optimism about what so many of us have achieved together in rebuilding our cultural institutions. At the same time, the environment in which we live has changed substantively. People travel differently. People think about their leisure time differently. People think about access to information differently and they compare what we do to other aspects of their lives in more complicated and competitive ways than they ever have before. It puts us, I think, on our toes. The combination of what we've achieved and those challenges make what I do and what I do with my colleagues at the AGO really very, very exciting.

When I think about the future of institutions, I think of a phrase that I heard once: the biggest challenge that big cultural institutions face is that they don't let air in. I've been thinking about that a lot because I think that is the big challenge. How do you let air in? How do you let new ideas in? How do you bring energy into your institution with a public that cares more and more about what you do and equally have other alternatives to your proposition at the end of your fingertips, i.e. on the computer.

I think about what Don Tavistock talks about when he talks about the prosumer or the co-creator and the notion that our audiences aren't what they used to be. Our audiences used to be consumers and our audiences are now people who actually produce and consume at the same time. What I learn from my teenage kids all the time is that the way in which you engage with content has also helped create it.

The challenge for an institution like the AGO is to create a space where people can create meaning, create their experiences by bringing something of themselves and creating content in that space. What does that mean? Institutions like the AGO have to use their building to reach out to the community, differently from before. They have to partner with individuals who can use their building. They have to partner with individuals who can help create meaning and not just present what they present as facts of authority. That notion of partnership or co-creation is core to how I think about the health of the AGO as we go forward.

We did an exercise at the AGO recently of thinking about what the next 10 years would look like. I began my thinking with three sentences. I'm going to end my thoughts here by reading the three sentences that I shared with my colleagues as a way of framing what I think the next 10 years of the AGO would be like. A great work of art can change the way we see the world. It opens up new possibilities of thought. In front of a great work of

art, we may even believe we can change the world. That was one thought. Then I said, "A public institution belongs to everyone. It should have the welcome of home and yet the feel of a space for the ages." Then the last thing I said, "The best things in life are free."

Alexander Neef

You will know because you've just heard it, but I've come here more than one and a half years ago from a very different background, from a European background. One of the most striking things about having been here for a little while is that the arts community here is really very, very small. People are unbelievably engaged and enthusiastic about what we're doing. Somehow I feel people are much more enthusiastic than some European audiences because it's fresher. It's younger also. I think youth in that context is actually an advantage not a disadvantage. You have a feeling that you can actually create something here.

When we talk about the future, I think creating something and having the opportunity to create something is a key point. Sometimes working for an organization like the Paris Opera, which has been there for 400 years, feels a little bit like administrating the cultural heritage. It's so difficult to add something because all the greatest achievements have been made. That might not be true, but you kind of feel you're dwarfed by the past. Working for an arts organization here and also living in this city is really great for a sense of participation. You can actually make a contribution as an individual and as an organization. That's something that I'm increasingly excited about actually.

What I would wish for is that arts and culture are considered an essential rather than a luxury of our society and our community here. I think that's something where we still need to do a lot of work because we have some-

thing to say, we have something to contribute. I think our audiences know that, but I think the people and the community need to know about it much, much more than they do at this point. My key points, my three key points, are exposure to the arts, accessibility to the arts and collaboration between the arts organizations.

I think we need to find a way to expose more people to what we do, which is an absolutely key point. There are many ways to do that through more activity. We know it is a challenge to put on more performances, but there are many more things to do than just do main-stage performances. You might know the COC has a deal with CBC for this season to put all of our seven operas on the radio. You might want to think about other new media initiatives—simulcasts or whatever or other collaborations with the media. I think we might want to talk about that later too.

Very closely linked to exposure to the artists is accessibility. Accessibility, of course, is something that happens through pricing. People are talking about that. Apart from the main stage, there are other things that we can do to show people what we are about, what we have to say and what our message is. It can be through educational initiatives.

I think we need to give people a sense that we are actually there for the community. The community needs to be there to support us and actually enable us to do what we do. We can do that in a much better way when we, as the players in the field, have a sense of creating a cultural environment that is not only allowing an opera company or theatre company or a museum, but also having all of these elements in place to have a really great cultural environment.

Albert Schultz

I would like to acknowledge the comments of both my colleagues here. What I'm going to try to do in four minutes is take some of what they've said, some of what I've been thinking and put it right back in our moderator's lap as something that can be perceived as a gift as much as a challenge.

I agree with Matthew that this city has shown remarkable partnership amongst its arts leaders. I think the country has done that too in a way that is growing and becoming more and more inspiring.

I agree with Alexander that we do have an issue with the notion of the essential nature of the arts, which is for everyone in this room I know, a very frustrating reality to have to argue. We know that they are essential for reasons that we have to keep bringing up, such as jobs. One point one million jobs in the economy are in the arts sector, 7.1 per cent of our GDP. These are all realities, but they're very sad for us as cultured people, people who care about our society. It's very frustrating to have to argue the real essential of the arts is that we know ourselves through the arts.

I also want to talk about exposure and how we can expand exposure through the arts. I'm going to try to pull all of this together in a challenge for you, Andrew. We had a talk at lunch about the challenge you have in your job as the arts editor of a paper, which calls itself the national paper, rightfully, and which is driven by the Report on Business and by its national and global news. Sports aren't so much part of the agenda at your paper and the arts are something that one has to struggle to keep in the forefront.

We need to construct an arts podium in this country. I think the Globe and Mail is a great vehicle with which to do that. I would like to see a cultural Olympian year at the Globe and Mail in 2011 where for 12 months, every

Monday to Thursday, we have Canadian arts and artists only in our national newspaper. I would then like you to come up with a reasonable quota for the weekend when we include international and popular arts. Perhaps 50 per cent on the weekends, on Friday and Saturday, would also be Canadian. We know that Canadians are interested in their artists. The problem is we don't give them the platform to learn about them. There is no better vehicle than our national newspaper to do that. I want to help you do that. The Globe and Mail has 350,000 subscribers across the country.

Matthew Teitelbaum talked about partnerships. We partner amongst ourselves. We need to get better partnerships. We have wonderful partnerships. We acknowledge Linda MacKenzie and Sun Life. We acknowledge all the people that support us, who partner with artists to get our stories out, not our story as artists, but our story as Canadians for which we are the conduit.

The partnership I'm asking for is the partnership of Canada's media. I'm asking you to take the lead on this. I know Martin Knelman is here. I know this idea is going to work because I know there is a web of connectedness between arts organizations and its arts workers, 1.1 million of them, three times your current subscriptions nationally.

Here's what the Star will start thinking, "Oh, we've got to catch up on this." They'll learn that Canadians want to know about their own stories. That's going to make your job a lot easier and it's going to make your job exciting. You're going to get top artists writing pieces for the Globe. The Globe and Mail will be the place that civilized Canadians go. We're all civilized. We will construct the podium and we will own the podium.

The last little challenge I have for you to give your editorial board is this. I suggest, along with that one year, that once a month you do a section on the arts and the economy or arts and technology. I can guarantee you

there are organizations that don't call themselves organizations that have a lot to learn from the fiscal responsibility and frugality of arts companies in this country. In the Focus section there can be sections on arts and education or arts and politics or arts and national identity. In the Life section there could be discussions on arts and immigration, arts and civic responsibility, arts and mental health, or arts and sexuality. In the Book section, there could be arts and responsible criticism.

I will give you that challenge because you have a leadership role to take and a partnership role to take with all of us. I can guarantee you people in Ottawa or in Queen's Park will not be saying, "The arts are a niche." They will be saying that the arts are central to who we are, where we're going and why we're here.

Andrew Gorham

I was going to ask a question, but Albert ate up all my time. That was very provocative and certainly the Globe and Mail considers itself a leader and a defender of the arts in Canada. We take that responsibility on with great pride. We drove home the cuts that happened at the federal level in the last year, probably determining the minority government that's in place right now because of a strong opposition that rallied around it. We take it very seriously. I accept the challenge.

Let's go to a question from the floor because there are a couple of fantastic ones.

With federal, provincial and municipal governments running big deficits and focusing on balancing budgets, how will the arts secure funding? Alexander was explaining that in France, upwards of 16–17 per cent of art-institutions funding comes from governments. Here in Canada, it's 18 per cent. How are we to increase support from the government, or do we want to?

Albert Schultz

I'm just laughing at the question. Of course we want to, but Matthew, I'm sure, has something to say.

Matthew Teitelbaum

I think that if, as leaders of our organizations, we don't continue to set a very high international standard of excellence for the work that we do and the quality of our production, then people will not follow us.

I think we have to see our public institutions as social organizations that affect our community and are tied to our community. We must therefore put our institutions at the service of those on whom we depend, and that is our audience.

Alexander Neef

We should say that we would not be able to do what we do without the support we receive from governments in the first place. It is a commitment to make us more excellent and help us to do what we do. For me, it's not a discussion about numbers; it's a discussion about commitment, about continued commitment, and also about why we receive what we receive.

What I would welcome is a much bolder discussion about public investment in the arts rather than just receiving support. I would welcome a discussion about what is the sense of doing this.

Andrew Gorham

You have institutions that represent great Canadian western art, yet Canada's changing its population. We have new Canadians. How will your institutions reflect this change and how will you meet that challenge?

Albert Schultz

This is a huge issue. It's a huge issue. We really have to think about the question you just asked. That means telling stories. We are storytellers in one way, whether we're curators or artistic directors, actors, painters, or sculptors. We tell stories and we have to be telling stories that represent our community.

It does not mean that we turn our back on Mahler or Rubens or Schiller, but it does mean that we have to make a concerted effort to tell the stories that will speak to the community as it is reflected. Canadian Stage has done some great work in that way. Stratford and Shaw are making big moves in that way. Of course our contemporary theatres are making a huge commitment to getting all of our voices speaking on stage.

Andrew Gorham

Albert, you have a three-year plan that you're implementing? Can you tell us a bit more about that?

Albert Schultz

It's really a five-year plan, but within two or three years, we will see the manifestation of this. We are going to start to develop specific programming. By 2015, we're aiming at having 30 per cent of our programming from outside the western camp. As a classical repertory company our material is primarily white, primarily Eurocentric and primarily male.

Matthew Teitelbaum

There are issues of content and at the Art Gallery of Ontario we think a lot about the artist whose work is shown. I think you'll see changes over time. One of the key issues for institutions is what kind of invitation do you extend to your audiences, knowing that your audi-

ences are diverse in interest, gender, geography. How do you create that invitation? You create that invitation by reaching out in various languages and various voices.

I think that the big change that I notice in cultural institutions, but particularly fine arts institutions, is that notion of what I would call the welcome or the invitation that is different from what it used to be. The visitor experience is paramount. We started to talk about what that meant. We started moving away from the notion of the canon, the tradition, the convention, and more towards what our audiences tell us about what we do. We're in the process of really thinking that through in, I think, a really fundamental way.

Alexander Neef

I think one of the challenges in a society of so many different cultural backgrounds is seeing how arts and culture from one cultural background translates into another one. You don't need to be Japanese to enjoy kabuki, and you don't need to be Western European to enjoy opera or Schiller or Shakespeare. To start mixing these cultural backgrounds is a big challenge that we have to face.

Andrew Gorham

This is a question about education. If you expose your organizations directly to the kids, to the schools, if you can get them early enough, art should stay with them forever. Are your organizations working directly with schools? What specifically are your ambitions with the children, not within the institution, but at the schools?

Matthew Teitelbaum

Well, we're just embarking on the creation of the Weston Family Learning Centre at the Art Gallery of Ontario, something that's been encouraged by the federal

government's stimulus money and the generosity of the rest of the foundation. We are in the schools, but more importantly, we want the schools to come to the Art Gallery of Ontario because there is something in that experience of the original work of art we can offer that is distinct. Most of our attention at the moment is focused on that.

Andrew Gorham

Does COC have outreach to the schools?

Alexander Neef

We have a fairly big education outreach program also because we believe we need to take care of our public right from the beginning. I think we start at age four and five. You win when you get people right at the beginning. We have a fairly extensive program with small children creating their own opera. They get excited about the process of creating something by themselves and not just passively receiving as a member of the audience. That has been very successful and the audience is very engaged. We try to bring them into the Opera House. We try to give them experience in the Opera House, let them hear the orchestra, hear the singers sing and experience the emotional process you go through when you experience art live. Exposing people to the arts in a very primary sense is important and is something that we can do.

Albert Schultz

Lest my silence be perceived as no involvement, as you probably know, youth outreach has always been one of the three parts of our tripartite mandate. We look at it in two ways. We look at access, as we've discussed. It's really important to get young people to theatres. We have a few programs. We have a program called Youth Rush

where anyone 21 and under can come to any show for \$5.00 at any time. We also have a program called VIP Free where any young person who has ever applied to one of our programs, our youth outreach programs, we now have about 2,000 of these, receives a card every year for free access all year long. We have 2,000 youth out there who have this free card all year long. Then we have something called Bring a Parent to the Theatre to encourage inter-generational experience where we give a student a student-priced ticket and they get to bring an adult for free.

Outreach is all based on mentorship. As so many organizations in the community do, artists who are on the stage or in the studio go out into the community. For instance, we have an actor who played King Lear. The same week that he was playing King Lear, he was teaching Shakespeare to ESL kids in the schools. He's on the stage being King Lear, and he's teaching ESL in the schools. It is crucial that we keep integrated in that way.

Andrew Gorham

A couple of years ago, the federal government Department of Foreign Affairs cancelled a certificate of funding that was allowing a number of our artists in Canada to tour abroad. It was claimed that off they went, we didn't see what they were up to, we didn't know what they were doing, and they arrived back. What was that money spent for? What was that money spent on and what was the benefit of having our artists tour the world stage when we're not, as a population, receiving any kick-back from it?

Matthew Teitelbaum

We live in a world of reciprocity and connectedness. If we're not on the world stage, good things aren't coming in the other direction. It was a pretty tough moment when

the government took that money away because there was a whole infrastructure that was in place. You can quibble about some of the efficiencies, but you can't quibble about what the initiative was. The initiative was to find a platform for Canadian artists on the world stage, which had innumerable benefits for our country in terms of the reciprocity of relationships. There's a hidden idea there, I suppose, which I fundamentally disagree with, which is that the artists themselves will find those relationships and create that reciprocity without institutional support. If we take that support away, it'll happen anyway. It just doesn't. You need that support and government support is a good thing. It was a jumping-off point for additional support. It was a sorry moment.

Andrew Gorham

What's a tangible benefit?

Alexander Neef

Alfred mentioned it in his remarks. The arts are helping to form a national identity and are a source of national pride. Touring and taking what we do here across the country or abroad is a very important thing to do.

Albert Schultz

I'll give you a real example that has nothing to do with Canada. On the way over I was in a cab with a cab driver from Ethiopia. We got talking about artists. We got talking about U.S. Aid for Africa. One of my heroes is Harry Belafonte. Harry Belafonte found Miriam Makeba in the late 1950s, an African singer in South Africa, and took her around the world. An instrumental moment in the world's understanding about apartheid was taking that artist out to sing. Belafonte was the biggest concert draw in the world. He gave 20 minutes of every concert to Miriam Makeba to tell stories and sing to people who could make

decisions. Telling the stories of that country changed the world. There's an example of why we have to get out.

Andrew Gorham

One more question. I'll blend a couple together for this. Do we need to give Toronto more of a cultural destination for international visitors? Is cultural tourism a viable model that will lift the profiles of our institutions in Canada?

Albert Schultz

Of course, unless you're going somewhere for sun, surf or perhaps nature. Who do you know that travels? I defy any urban traveller to say he was going to a city and not mention a cultural reason. If you say, "Have you been to Sydney?" you also say, "Isn't that Opera House amazing?" If you say, "I'm going to Stratford," you're not talking about the fields. If you say you're going to Paris, you are talking about the architecture, the art, the music, etc. People are leaving their city to go to other cities for reasons that are 90-per-cent cultural.

Albert Schultz

Everyone on this stage knows this and everyone in this room knows it.

Alexander Neef

I had my colleague from Houston here the other day. He had never been to the Opera House and he loved being there. He also went to the AGO on the morning after the performance. He took a different image of Toronto home this time than he took when he had been here 10 years ago.

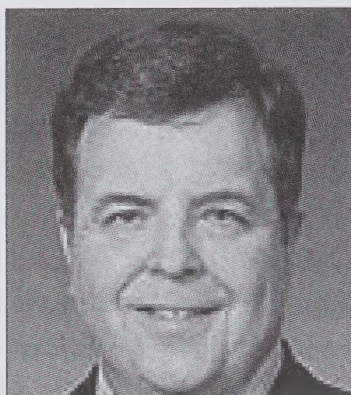
Matthew Teitelbaum

The image we want to present is a connected image. We know, again, from the way in which we learn and the way people use their time, that it's a mosaic. We take a little bit of this and a little bit of that and we create an experience. That experience is the Opera and the AGO. I can't wait for the Film Festival to open because it's just down the street. One can imagine all those wonderful things that we can do together that create in the mind of the visitor the notion that Toronto is truly more than the sum of its parts, that the parts are actually working together. That's what one would want to encourage governments and stakeholders to believe in.

The appreciation of the meeting was expressed by Catherine Lyons, Partner, Goodmans, and Director, The Empire Club of Canada.



A portion of our Arts Panel.



March 29, 2010

The Hon. Dwight Duncan

Minister of Finance and Chair of Management Board of
Cabinet, Government of Ontario

PROVINCIAL BUDGET 2010

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Richard Nesbitt, Chairman and CEO, CIBC World Markets Inc.; Douglas E. Turnbull, Deputy Chair, TD Securities Inc.; The Hon. Gerry Phillips, Minister without Portfolio, Responsible for Seniors and Chair of Cabinet; Sheldon Levy, President, Ryerson University; Rev. Chris Miller, Minister, Oriel York Mills United Church; Bill White, President, IBK Capital Corp., and Director, The Empire Club of Canada; Timothy Hodgson, CEO, Goldman Sachs; Wayne Arthurs, MPP, and Parliamentary Assistant to Minister of Finance; and Paul B. Spafford, Vice-Chairman, Managing Director, CIBC World Markets Inc.

Introduction by Alfred Apps

Dwight Duncan

Thanks to everybody for coming out today. I thought we'd do it a little bit differently today and take a different approach on how we talk about the budget, and more

importantly how we talk about the future, where we're going to go, and the thinking that went into the budget we produced last week.

First of all I want to thank the Empire Club. I was supposed to speak Friday morning, but a wonderful friend of my mine, Father Paul Charbonneau, who founded the Brentwood Recovery Home in Windsor and whom I worked with for eight years, passed away. He was 87 years old. He lived a long and prosperous life and more than 20,000 people went through his program. I was invited to do the eulogy and didn't want to miss that. I was glad to have the opportunity. You think balancing the budget of the province of Ontario is a challenge, try keeping a Catholic priest with a vocation to save the world in balance.

This is about jobs and growth. People often said to me last year, "Is everything good? Are you okay?" It's like you were besotted by a plague of some sort. I'd say, "Yes, sleeping like a baby. Every three hours I get up and cry."

This year was a little bit different. At this time last year, we didn't know if the American financial system was going to survive. We didn't know if the Detroit Three were going to survive. We saw our numbers were tanking. Everybody's numbers were tanking—the United States, Great Britain, Canada, virtually all of the Western world.

We made the decision last year to move forward with an aggressive tax package that cuts taxes for most Ontarians and harmonizes the sales tax. That has not been an easy sell politically, but we're doing it and we're sticking to our guns on it, because it will create 600,000 jobs. It will raise incomes and it will raise capital investment in this province over the next 10 years. That tax-competitiveness piece is extremely important for us.

This year we built a stimulus package that caused us to run our deficit up, higher, I think, than any of us would like. I was very proud of the fact that in the three prior years we had balanced budgets. I was very proud of that,

but the IMF, the OECD, and others said, "You've got to do this." We did that and there are now more than 5,000 projects going on all over Ontario keeping people working. The Conference Board of Canada has said that not only has our plan worked, but it's creating more jobs than we said it would. It also raised GDP by about one-tenth of a per cent last year, which is very, very significant.

This year, it was about, from our perspective, jobs and growth. How do we continue to create jobs today, but provide for more growth in the future, having done the tax piece last year and building on it, and at the same time lay out a plan to bring down the deficit and get us back to balance? A lot of preparation goes into these things. You consult a lot of people. I'm delighted my parliamentary assistant Wayne and Gerry Phillips are here. They had a great deal of say in the development of this budget and served as very strong advisors to me as did many of you in this room. I've consulted quite widely throughout the province.

We landed on a package that lays out a deficit elimination plan over eight years. A lot of folks think that's too long. A lot of people think, "Well, you should do it in five years or four years or three years." I thought Governor Dodge spoke eloquently this past weekend on the challenges before governments right across the country, but he's not up for re-election next year. Governments have to strike a balance. This is about balance and fairness. It's about getting it right and doing it in what I call a prudent fashion.

Roger Martin's latest work for the task force really instructed me and informed me in our decision making and in the premier's decision making. We talk about the need to be competitive, but to be competitive you need a strong post-secondary system. You need to lower taxes for lower-income people, by the way, in order to help them get back to productivity in society. We looked at a

whole range of things, and we landed where we did. We also had to take into account some regional variations.

I spent a lot of time in Northern Ontario last fall and that part of our province is struggling. There's no question about it. We have quite a package for the North in here. By the way, if the North prospers, we prosper. When commodity prices started to fall last year, it affected our mining sector, which up until then had been doing quite well. The forestry sector had been in trouble, and also a number of others, but there was a growing sense up north that we weren't doing enough. We decided to build on that through a variety of means.

I think one of the most exciting opportunities for all of Ontarians is this so-called ring of fire. Enormous deposits of chromite have been found. I had never heard of chromite before, but it is essential to stainless steel. There's not a whole lot of it in the world. Other minerals were found. This find can be as exciting as the discovery of nickel was in the 19th century. We're moving forward a little bit on that to get it moving more quickly, but it's not the 19th century. We have to do it now, understanding the impact that all of this could have on our environment. We're going to move quickly, but with an eye to the environment and involve all northerners, including our Aboriginal peoples and First Nations.

We created another 20,000 post-secondary spaces and have funded them to the tune of, I think, \$310 million. That's because we're seeing that kind of increase in demand. In Ontario today, I think 62 per cent of us have post-secondary attainment, which is, I think, one of the highest in the world, certainly the highest in North America. We also know that 70 per cent of the jobs in the future will require post-secondary attainment. We have set a goal of achieving that 70-per-cent post-secondary attainment, that includes universities, colleges, and skills training.

We have begun the road of restraint. We are freezing non-bargain salaries across the broader public sector over the next two years and we will not fund increases in broader public-sector spending resulting from collective agreements. A lot of people said, "Well, why didn't you just open up the collective agreements and freeze them?" Well, we made the decision to allow those agreements to expire. We've got some 750 collective agreements expiring this year. What makes Ontario a bit different from other provinces is that we often are not the bargaining agent. Our universities and hospitals are all separate. They do not require our approval. They do require our funding. That is important. I think we've talked about fairness and balance. There are more than 1.2 million people who are employed in the broader public sector, which in most communities in Ontario is among the largest employers.

We moved cautiously this year because we didn't want to upset the economic growth. I think one of the things I'm most excited about is that a lot of economists are now predicting Ontario will lead growth in Canada and Canada will lead growth in the world in the coming year. The numbers aren't quite as robust in our years. We'll see how all this unfolds, but that is a good sign. I think it speaks to what's really good in this economy and that is that we have a highly skilled work force relative to other countries and other jurisdictions. We're in pretty good shape financially, even though we all have deficits and debts, larger than we would like. It speaks, I think, to the nature of the diversity of our economy. It's a wonderful diversity.

We were talking about the North—mining and forestry. Talking about the South, I was delighted when I heard General Motors is bringing back its third shift in Oshawa, adding employees at CAMI in Ingersoll. When Ford Motor Company started its restructuring plan three years ago, it announced the closure of, I think, seven or eight plants around the world. Ford has decided to bring one back and that's the one in Windsor, Ontario, my hometown.

That's the one where I worked during the summers to put myself through university. We're happy about that.

I think there's a lot to be happy about in the economy as we move forward. There are a lot of challenges. I think health care is a challenge. We all recognize that. Today health care consumes about 46 cents of every dollar we spend. By 2022, 12 years from now, it'll be 70 cents per dollar if we don't start to address it. You're starting to hear governments right across the land, provincial governments and federal governments, starting to talk about it. It's one of the issues that Governor Dodge raised in his talk on the weekend. Pensions are an important issue as well—whether we're saving adequately for our retirement and what are the best ways to incent more savings.

One of the great social policy achievements in the latter part of the 20th century was the dramatic reduction in poverty among the elderly. It's been reduced by almost 97 or 98 per cent since the late 1960s—enormous progress. One of the interesting things about our current system is that people in the bottom quintile, the bottom 20 per cent of income earners, when they retire, because of the way our pension system is structured, will see an improvement in their disposable income. The challenge, according to an expert the federal government hired, Jack Mintz, was the middle class and whether it was saving adequately. That has enormous implications for provincial governments especially.

Think of long-term care. I always like to talk about long-term care because none of us wants to believe we're going to need it. The reality is we will. We're going to live longer. There'll be new medicines, new technologies, that will allow us to live longer than our parents. It costs a lot of money. Most people don't realize that most long-term care in Canada is delivered privately. If there's a failure on our part to save now, it's going to fall on governments. What are we going to do with this influx of people? By the

way, as I think you all know, the baby boom turns 65 next January 1, the tail end of the baby boom. I'm near the end of it. We're going to see growth in these things every year for probably the next 15 to 20 years. That's real and it has implications for all of us. One of the concerns we have is the number of people working relative to the number of people retired and not working is going to change. The ratio will be worse. These are very real issues.

We're moving in a couple of areas on the health budget significantly. All of us have to do our bit. We're raising transfers to hospitals 1.5 per cent, but that's only one component of it. When you look at overall transfers, it's 4.9 per cent, running well above the rate of inflation as it has for a number of years. Those are the kinds of things that all of us have to address. We believe that getting back to balance is part of that. Do you do it in five years? Do you do it in eight years? Do you do it in four years? We can debate that. When Mr. Flaherty brought in his budgets and said five years, a lot of analysts said, "It's not realistic." When I brought in my budget and said eight years they said, "It's too long."

We've built in a considerable amount of contingency, a considerable amount of future flexibility. My hope is that we will, in fact, do better than the targets we've laid out. We have laid out specific targets; you will be able to judge us against every year moving forward. There's been a lot of noise around the transit issue. I just want to stress we're not cutting transit. All the projects anticipated are all going to happen, but will take a bit longer. We're going to have to think through very carefully how we move forward, but we are committed to moving forward on everything. These are difficult choices each and every one of us has to make, and by the way, all levels of government.

We're trying to avoid the old situations with the federal government or our municipal partners. I think people want to see their governments working together. My

friend, Gerry Phillips, always tells me that there are areas where we're all doing the same thing. Do we really need, Gerry, in the example you used, 13 film boards across the country? Do we really need 14 common securities regulators? With all of these things we all have to look at them and work together.

The federal government, to its credit, extended for one year the Canada social and health transfers, which we did not anticipate. That's good news. There are a billion dollars in federal funding expiring from programs like public transit, childcare and others. We moved to fill the childcare gap this year. We're obviously not always going to agree, but I do think we all have to work together.

As we move forward, there will be more difficult choices. We've provided a lot of cushion in the budget. We have provided a lot of contingency and a lot of prudence. It's not necessarily visible to the naked eye, but there will be more difficult choices. Working together we can get back to balance and ensure that Ontario leads. I'm looking forward to the coming year. Our numbers are definitely ticking up, whether you're talking about revenues, or whether you're talking about new housing sales, consumption, things that are important. In the out years, it could change. I don't know for certain. I have to rely on the advice I get from private-sector economists.

What I do know is that working together we have the work force, we have the ingenuity, we have the skill sets, and we have the diversity that allows us to lead, not just Canada, but the world. I believe that as we move forward we have to always work to find that balance, recognizing that things like education, health care and a clean environment are as important to economic growth as is a balanced budget and a competitive tax system. We're going to continue to work to find that balance. We're going to continue to make the investments that will give us the best-educated work force, and the most competitive economy. None of these are easy decisions, but here

in Ontario, given all of the infrastructure we have—human infrastructure, physical infrastructure and the enormous strengths of this economy—I believe that we will lead Canada and lead the world. Thank you very much.

Question

Minister, can you tell us why it will take so long to balance the budget?

Answer

It's because we spend a lot of money on a range of services that are important to Ontarians and important to a growing economy. We have laid out a plan where we've set annual targets. You will see on a yearly basis whether we achieve those or we don't achieve those. As I've said, we've also built considerable prudence into the budget, considerable contingency. That's because there's been a lot of volatility. Last year, it was just incredible. We base all of our numbers, by the way, on the private-sector economists. When we set a growth rate, we look at what the private-sector consensus was just prior to going to print and then set it below that. That's part of the contingency we built in. We want to make sure that as the economy gets back to growth and it is back to growth now, that we can preserve and enhance the services that are important to economic growth such as post-secondary education.

We're proceeding with full-day learning for four- and five-year-olds, which according to all of the experts is one of the best things we can do for long-term economic progress. We're doing it in what I would call a measured way. This year there'll be some 35,000 spaces opened in 600 schools across the province as I recall. I think that's the right balance.

We want to also look at how we do government. We're going to take another close look at that. One of the things that didn't get a lot of attention in the media was the new mandate we've given to the Treasury Board, which I think

is very important. We're literally going to look at every program government does and determine if it's achieving what it's supposed to do and doing it in a cost-effective way. That's going to make a big difference over time.

Question

Minister, I'd like to commend you on engaging us and stakeholders in this matter. You've alluded to the fact that recently economic data has actually been quite strong or positive for Ontario. I know it's always tricky to deal in hypotheticals, but can you give us a sense of your priorities, what they would look like if you were to generate a little bit more maneuvering room or better news on the revenue side? Would it be to shorten that time horizon or let these monies flow to priority areas? What's your thinking on that? Thank you.

Answer

I think we'd like to see the deficit come down more and again strike a balance. We're not moving as quickly in some areas as we would like. The numbers are pretty solid for this year. They're not quite as solid in future years, but I think over time we want to get back to balance as quickly as we can. We certainly want to achieve the targets we've set out, but candidly, I would like to exceed the goals we've set out. Again, what we did was we set, I think, a very realistic time frame, built in a lot of contingency and prudence, and as we move forward if we're able to we'll bring it down more.

Question

Thank you very much as well for taking these questions in this way. I want to pick up, if I can, on the trends in infrastructure point that you raised in your remarks. Obviously, the Toronto Board of Trade shared in some of the disappointment in the rolling or apparent rolling back of what was once a 10-per-cent down payment on the Metrolinx \$50-billion vision. It appears now to be a 5-per-

cent down payment on that \$50-billion vision. However, we do hear that the commitment is still there and we appreciate that. We look forward to working with you on that. That said, for a large portion of that \$50-billion vision we cannot anticipate at this point where the funding will come from. Metrolinx has been given until 2013 to come up with a financing plan. Do you think, in light of the slow-down, that we should be accelerating the discussion about the financing plan and how we're going to raise the full \$50 billion over the next couple of decades?

Answer

I had a chance to speak to Rob earlier and Doug Turnbull and others who are on the Board. First of all, let me re-emphasize that we are proceeding with all of it. One of the things I found frustrating, the big signature piece in my 2006 budget, was the subway extension. I don't think we broke ground until this year, four years later.

There are a number of projects that are moving forward. We're buying some 400 streetcars this year. We've got infrastructure projects in the ground. We all have to make these decisions. I would hope that the Metrolinx Board would give us advice on that. One of the steps we took was to appoint a commercial board with lots of people with lots of qualifications in running businesses and knowing how to proceed with things like business plans. I'm looking forward to their advice. I'm not sure there's an easy answer to it. I'll look to them for guidance on that. If they can do it a bit earlier, I think that's beneficial to everybody.

Question

Thank you Minister, for taking these questions. I'd like to follow up on the question about transit. I've heard quite a few concerns expressed about this. I've heard that this represents not only a backpedaling in terms of the government's commitment to climate change, but that it sends a bad signal in terms of the government's commitment to infrastructure. We had infrastructure stimulus

spending and in a sense that was last year's issue and we would no longer have that long-term commitment to dealing with the infrastructure deficit.

I guess someone told me that this looks like another Darlington. The government starts a project, then stops it, then starts it. In the end, the taxpayers pay much more for the project. Could you comment on both the commitment to the environment and on the commitment to infrastructure spending more globally?

Answer

Well, first of all, this year we're proceeding with the second half of our \$32.5-billion infrastructure program. It's on track and on schedule; the projects are underway. We did something called Renew Ontario a few years ago. We had a five-year infrastructure plan, which we finished in four.

Part of what we said in the budget was that we are going to look at our 10-year capital plan going out. There's been no government in recent memory that has invested the kind of money we have in infrastructure. One of the reasons we were able to move as quickly as we did last year is that so much work had already been done in terms of environmental assessments and so on. The commitment remains there.

We've got some 49 hospital projects underway in Ontario today. We've got a long list of transit projects underway today. I always find it interesting. One side says, "You're going too far on the environment." The other side says, "You're not going far enough." I think we all need to get to the middle. We all need to understand that we have to be balanced in these things. If you slow down a few projects for a couple of years, it doesn't lessen your commitment.

The other part of the budget was to clean water. We've got pipes in this city that are 100 years old underground. Part of the whole Open Ontario Plan is clean water and clean air. We've moved forward farther than some people

would like on cap and trade. We have to watch carefully what's going on in other jurisdictions. My hope is that as we move forward we can all talk about how we get to these goals and how we do it in a balanced, responsible fashion. There are enormous sums of money committed to infrastructure, committed to public transit and committed to the environment. We will continue to make what we believe to be appropriate and balanced decisions in those areas.

Question

Three things. First of all, thank you for the investment of \$310 million to support the expansion of 20,000 spaces in colleges and universities. Secondly, a request that your government continue to work to move that annual funding into the base funding of colleges and universities is hugely important for us. Speaking on behalf of all chairs of Ontario universities, to have that in base funding we can plan the continued excellence of Ontario universities. Thirdly there are no new monies, as I understand it, in this year's budget for capital funding of universities, something that's hugely important to universities. When do you anticipate that Ontario universities can see a resurgence of capital funding?

Answer

A lot of the stimulus money is going to go into universities and we've got some major projects in the ground now. There continue to be needs. We'll evaluate them as we move forward and see what's affordable, recognizing that we want to balance our budget, but also recognizing that there have been literally hundreds of millions invested. In my budget of two years ago, we provided almost a quarter of what was identified as needed for deferred maintenance for universities. We did that two budgets in a row, I believe. I'd have to double-check that for you. There are an enormous number of projects going on or underway right now at our post-secondary institutions, universities and colleges. There is a lot more to do.

We will do it in what I call a fashion that takes into account our wherewithal to do it, but also recognizing that education is this government's top priority. It's key to the Open Ontario Plan. It is key in our view to a bright economic future. We salute all of the post-secondary institutions in this province that, in our view, are doing a terrific job and we look forward in the not-too-distant future to getting back to the kinds of investments we all know we need to be making.

Question

I'm just sort of curious. One thing that I always find very encouraging is that in the last decade in our budgets in Ontario we are instinctively speaking in terms of international competitiveness. That's a fantastic quality and instinct to have in Ontario. I'm also curious though about inter-jurisdictional competitiveness within Canada, and in particular how Ontario stands vis-à-vis British Columbia, which is often the natural comparator that we have for all sorts of reasons. How do you think that we stand as a business destination, as a destination for economic growth now against other jurisdictions in Canada and against B.C. in particular?

Answer

Let me address that from several angles. There are resource-rich provinces and other provinces that aren't. We had to make some moves last year on the tax side to ensure our competitiveness on taxes. We were falling behind Alberta, British Columbia, Saskatchewan and even New Brunswick's going to be cutting their corporate tax lower than Ontario. For us, part of that debate at the time was about where other provinces were. This is still the engine of Canada, the economic engine.

I forget what percentage of new Canadians choose to come to the Greater Toronto Area and to Ontario in general. This whole notion of a have-not province tied to equalization is just nonsense. We're paying ourselves. We're essentially getting back a small portion of what

we're paying into it. It's a system that has been systematically, I want to be careful in the language I use, but it's changed over the years and doesn't take into account reality and doesn't really speak to need. Lots of others have talked about that. I won't go into it here today.

We have, I think, 1,500 corporate headquarters here. Most of the exciting things I see going on in post-secondary education are happening right here at U. of T. and our campuses right across the province. We have made substantial investments that have not happened in other provinces. I think if we continue to do those kinds of things, we will continue to lead. It looks like this year Ontario's going to lead Canada in economic growth and Canada's going to lead the world. I think that speaks well. It doesn't mean we don't have challenges. It doesn't mean we can be oblivious to deficits and debts. It does mean that we all have to work to find that balance.

The kinds of investments and undertakings we've done have been with the best advice of some economists. I've been very grateful for the support we've had right across the province for what is going to help set this economy really moving quickly and will help our post-secondary institutions and help the overall economic climate here.

Question

Thank you, Minister, for your government's commitment to continued pension reform. I'm wondering if you can confirm for me whether it's your intention to complete that reform package by the end of this calendar year? Thank you.

Answer

What he's referring to are the regulations around defined benefit contribution plans here in Ontario. Professor Arthurs gave us 144 recommendations. Earlier this year, I moved ahead with the first batch. To your question, yes, I hope to bring those forward in June, around June. Don't hold me to a specific date. This is the first meaningful pension reform, I think, in Ontario in 28 or

30 years. It's important to the health of our defined benefit plans.

I do want to go off a little bit and talk about the 70 per cent of us who don't have a pension and the importance of the discussions that are going on at the national level. Finance ministers from across the country will be gathering in May for another session. I'm sure all of you read Governor Dodge's comments over the weekend. We are now engaging in a very healthy debate about sustainability, and I talked about this a little bit in my remarks, but I think that's an important debate all of us have to participate in as we prepare for the retirement of the baby boom. To your question, yes, we will be bringing in the second package of amendments on that, but to the broader question, Ontario will continue to take a leading role in encouraging this national discussion about how we move forward to ensure a brighter future for retirees in this country in the years ahead.

Question

Good afternoon, Minister. Small business is always very interested in a balancing of policies. Surely in the next few days we are going to see an increase in the minimum wage. Can you tell us why you chose to go ahead with the increase at this time when, in fact, the recovery is still quite fragile? Given that small business did contribute quite a lot to employment during the tougher months when larger businesses were actually losing jobs, why would you have considered not going ahead with this increase at this time?

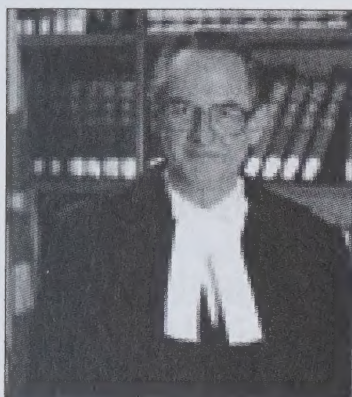
Answer

We proceeded because we believe, first of all, that it's good when you have folks making a livable wage to buy things and to consume a lot of our growth. This year it's about consumption. Second of all, I remind you on July 1 we're cutting the small business tax and eliminating another provision that I think will make it the largest small business tax cut in Ontario history. So we have,

again, tried to strike that balance. I think for nine years in Ontario we didn't have an increase in the minimum wage. We laid out a number of increases over a period of time. We said when they would happen. We've cut corporate and small business taxes over that same period. I think that balance is there. On an hourly basis \$10.25 doesn't go very far. I think it's the right balance. We've tried to assist small business through the small business tax cuts. I also remind you that one of the real benefits of the harmonized sales tax is we're cutting business compliance costs on taxation by almost \$100 million a year.

The other thing we did earlier was combine corporate taxes. That was very important. Capital tax is eliminated as of July 1 this year. Small businesses are going to be the biggest beneficiaries of the HST in terms of the input tax credits and so on. We've tried, again, to find that balance to ensure that we have a competitive economy going forward and we have a very decent and affordable standard of living for all Ontarians.

The appreciation of the meeting was expressed by Alfred Apps, President, The Empire Club of Canada.



March 31, 2010

The Hon. Mr. Justice Ian Binnie

Supreme Court of Canada

IS THERE NOBODY SMARTER THAN A TORONTO LAWYER?

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Tim Reid, Director, Business Development, ZED Financial, and Director, The Empire Club of Canada; Rev Brian C. Stillar, DMin, and President, The Tyndale Foundation; Thomas G. Heintzman, Counsel, McCarthy Tetrault; John A. Campion, Partner, Fasken Martineau, and President, Federation of Law Societies Canada; Don McCutchan, International Policy Advisor, Gowlings LaFleur Henderson LLP; Robin Sears, Senior Partner, Navigator Ltd., and Director, The Empire Club of Canada; and James C. Baillie, Counsel, Torys LLP.

Introduction by Alfred Apps

Ian Binnie

The topic occurred to me a couple of months ago when I was discussing with President Alfred Apps what I might talk about today. At the time, David Ward, one of the founders of Davies Ward, had just died and one of the

obituaries referred to him as the “smartest man on Bay Street.” This audience will need no persuading that if you are the smartest man on Bay Street you are evidently the smartest man in Toronto, and probably the country, if not globally. So the question occurred to me: is there really no one smarter than a Toronto lawyer?

A few days later there was an article in the London Times referring to a British barrister, a Q.C. named Jonathan Sumption. He was described as having “a brain the size of a planet with fees to match.” Now I don’t claim that Toronto lawyers have brains the size of planets (although their fees might match) but I do say that they are smart, in the dictionary sense, which has nothing to do with IQ by the way. Smart is defined as “clever in talk or argument, adept, especially looking after one’s own interest, astute.” Nobody can dispute, surely, that Toronto lawyers do brilliantly in looking after their own interests. What is less appreciated is that their present reputation for cleverness is of recent origin.

At the time I was called to the bar in the mid-’60s lawyers were the Rodney Dangerfields of Bay Street. There wasn’t a high level of respect in the broader community for who we were or what we did. It is only in recent years that the legal agenda has moved from the fringes of the consciousness of Bay Street towards the centre. This move largely came about through the political process, including the adoption of the Canadian Charter of Rights and Freedoms in 1982. The Charter may not have been adopted with lawyers in mind, but my thesis is that Toronto lawyers have most brilliantly exploited the opportunities provided.

If the commercial activity in this city is bogged down today in an increasing number of laws and regulations, who profits if not the lawyers? If it is true that red tape binds the country together, who are the nation builders if not the lawyers? If the Canadian Charter has grown into a defining characteristic of the country, as was said only a

few weeks ago by the Reverend Jeffrey Simpson, who should get the credit if not the lawyers? Our new status is a huge change from an earlier era when lawyers were generally regarded as slightly marginalized wind-bags—a short step removed from their criminal clients.

The first head of the Law Society of Upper Canada was actually shot dead in a duel by the husband of his former mistress about whom he had made unflattering comments. As recently as 1913, the Treasurer of the Law Society, Sir Aemilius Irving, was the survivor of a duel fought earlier in his career following a challenge from opposing counsel.

Cecilia Morgan, the well-known historian, says that half of all duels in Upper Canada were fought by law students, lawyers and occasionally judges. She concluded that duels appealed to the “swashbuckler, the bully and the mentally disturbed,” a description which could be applied to many of the current members of the bar. I can’t imagine, for example, Robert Simpson or Timothy Eaton fighting a duel no matter what was said about their family. In those days, they were the smartest people on Bay Street.

Around the time I was called to the bar, lawyers did not have the clout they have today. The intellectual standards were not very demanding. It was easy to get into law school for one thing. It was easier, in fact, than for a recent arts graduate to get a job. Socially we lived in a different milieu. The financial men all went up to the York Club and the intelligencia ate their cucumber sandwiches at the Arts and Letters Club. The accountants had their martinis at the National Club but most of the bar, every weekday morning, assembled at a Honeydew restaurant at the corner of York and Adelaide Streets and hit each other up for free coffee.

In those days Alan Borovoy of the Canadian Civil Liberties Association was seen as eccentric for carrying on about civil liberties. When he got into a shouting

match with the police and commented that he didn't realize that flat feet went with thin skins he was roundly denounced. As the comedian Mort Sahl used to say at the time, "In the halls of justice the only place you find justice is in the halls."

When the late Glen How stood up for the rights of religious minorities including, in particular, the Jehovah's Witnesses, he used to say that the only protection he had "was under the provincial game laws." When a young Bora Laskin came back from graduate studies at Harvard, fired up with the idea that the law could actually serve a useful social purpose as well as providing rigorous intellectual exercise (both novel ideas), he couldn't find a law firm in Toronto willing to give him a job. It was said, too, that anti-Semitism played a role.

In those days the Toronto law firms were comparatively lean and mean. They generally consisted of small bunches of lawyers in offices with linoleum floors and manual telephone switchboards. Blake Cassels was the biggest firm in Canada and it had only 54 lawyers. This gives you some idea of the growth that the legal profession has achieved in a period of perhaps 45 years.

Unlike today, the lawyers of the 1960s had not yet mastered the art of billing. John Robinette, the leading counsel of the day, used to charge a flat fee of \$500 to take an appeal. According to Statistics Canada, \$500.00 in the early 1960s would translate into about \$3,200 today. Knock on any Bay Street firm and ask how much work you can get done for \$3,200. Nevertheless the Robinette era, which stretches from the 1930s to the mid-1980s, coincided with the re-invention of the Toronto bar as a group of people smarter than had previously been recognized.

Toronto lawyers discovered that with more laws and regulations the more indispensable the lawyers became. The lawyers discovered that, like Starbucks, if you took a 50-cent cup of coffee and could turn it into a \$4 latté you

could do much the same thing with a \$3,200 legal fee. Finally, they were smart enough to jump on the bandwagon that was starting to roll in favour of human rights and civil liberties. The legal agenda became a fashionable topic of conversation even for non-lawyers.

This is not to say earlier generations of lawyers were not engaged in civil liberties. They were deeply engaged, but few found a way to make money out of it. John Robinette was involved in the late 1930s in contesting an Alberta bill that required newspapers to publish government press releases responding to unflattering press coverage about “funny money” and other Social Credit government initiatives. Today this sort of government action would be condemned as “forced speech.” But in that era a successful challenge to a law based on free speech grounds was novel and unprecedented.

In the 1940s and 1950s lawyers fought about Japanese Canadian deportees, they fought about Jehovah’s Witnesses, they fought about Communists in Nova Scotia trade unions and they fought about abuse of power. *Roncarelli v. Duplessis* was the first case in the common law world to hold the head of government responsible for damages for the abuse of statutory powers.

So the lawyers were gathering steam and gaining in public profile but they had not found a way to turn all of this into a big income. Few in that era would have subscribed to the idea that nobody is smarter than a Toronto lawyer.

Today things are different. Who, if anybody, is smarter than a Toronto lawyer?

Judges make no such claims. Most observers probably share the view of Toronto lawyers that it is better to talk drivel in court half the day than have to listen to it all day.

If judges are no smarter what about the accountants? Ron Osborne now the Chair of SunLife claims that he only became an accountant because he didn’t have a big enough personality to be an actuary. I don’t think you

would find a Toronto lawyer making that sort of self-deprecatory remark. There is always a danger that somebody will take humour seriously.

The big seven accounting firms thought they were so much smarter than the lawyers that in the 1990s they decided to poach the lawyers' corporate practice into multi-disciplinary partnerships. Ernst and Young and Arthur Anderson announced that within 10 years they were going to be among the 10-biggest providers of legal services in the 10 biggest legal markets in the world. Then came along the Enron collapse. Ernest and Young's legal wing in Toronto, Donohue and Partners, disappeared. The mighty global firm of Arthur Anderson disappeared, but Enron's law firm is still there and prosperous.

Investment bankers claim they are a lot smarter than Toronto lawyers and Charles Prince will be speaking to the Empire Club next week to explain just how well they have done over the last decade. They succeeded in flying the financial industry into the mountainside. It was estimated by the New York Times on February 8 of this year that "innovative banking practices cost the United States alone over \$7 trillion representing the loss in household wealth that has resulted from the crisis." Well, I mean, how smart is that? While the investment bankers may have recovered some of their financial losses I expect their reputation for smartness remains diminished. More to the point, the money-men are spending an awful lot of time in court these days enriching the legal profession.

Then we have the central bankers. As you recall, Allan Greenspan, the former Chair of the U.S. Federal Reserve, admitted to the U.S. Congress a few months ago that the financial meltdown "revealed fatal flaws" in the economic thinking of his lifetime and left him "in a state of shocked disbelief." Lawyers don't make that kind of admission. Lawyers don't advise their clients to make that sort of admission. Lawyers don't defend and they don't explain; they just move on.

Creative people and advertising agents think that they are smarter than the lawyers but I don't know of anybody who has come up with a better advertising slogan than our old friend Harry Kopyto, who used to practice law under the slogan "After Kopyto there's nobody."

Then there are the economists. On March 22 the *Globe and Mail* quoted Olivier Blanchard, the Chief Economist with the International Monetary Fund, as apologizing, and I'm quoting "apologizing for," and this continues the quote "thinking that he and his colleagues knew how to conduct macroeconomic policies." Read it for yourself; it's on page A13. I mean how smart is that? When was the last time you heard a Toronto lawyer apologize for anything?

Engineers, architects and doctors regard themselves as brainy and smart and say they perform to the highest standards. And what they say, of course, is true. Lawyers say the same things about their client engineers, architects and doctors in those big professional malpractice cases.

Members of the Toronto Arts community think they are smart, smarter than lawyers anyway. Somebody recently approached Margaret Atwood at a cocktail party and to make small talk he said that his wife had read all of Margaret Atwood's books. She replied, "Well and what sort of books do you read, Big Boy?" Instead of delivering a put-down, a lawyer in Margaret Atwood's position would have tried to do some cross-selling: "Well I'm glad you think I did a fine job on the novels and perhaps I can interest you in buying some big ticket items at Atwood's Furniture Store on Yonge Street?"

Then there are public intellectuals on the Steve Paikin show who seem to have read everything. They must be very fast readers. Woody Allen, you may recall, also took a speed-reading course. He claimed to have read "War and Peace" in 15 minutes. When asked how he liked it he said it was great: "It was something about Russia."

The editorial boards of various Toronto newspapers think they are smarter than everybody including lawyers. However it is difficult to judge how smart they are because they seem to live in a kind of alternate universe. On Canada Day last year, you will remember, I hope, the front page headline in the Toronto Globe and Mail proclaimed "Canada at 142: We're inferior no more." Inferior no more! This was on our birthday! Who outside angst-ridden editorial writers ever thought we were inferior? Lawyers find it hard even to relate to people who feel inferior. Lawyers don't feel inferior.

Lawyers feel superior.

Then there was the recent meltdown in media circles when a 50-something-year-old pony-tailed British golf correspondent for The Guardian blogged that the Vancouver Olympics were the worst games ever. The Globe and Mail said, "There is a risk of overreacting to Mr. Donogan's analysis." Well, I'll say there's a risk in overeating. The Globe cranked up the over-reaction by publishing an editorial headed "Glitches Not Catastrophe!" No Toronto lawyer would have admitted to glitches, and certainly wouldn't have put a word like "catastrophe" in the headline. I don't think the insignificant tweets by a British twit sent anybody else into a full-scale existential crisis. So newspaper editors might be quite smart but they suffer from such multiple neuroses that I think we'll never know. Certainly Toronto lawyers don't suffer existential crises on that scale.

The politicians certainly claim to being smarter than lawyers, but they haven't even seemed to have figured out that the reins of power aren't attached to anything.

Nanoscientists are undoubtedly very smart but they work away in cramped laboratories creating subatomic particles year after year for wages that wouldn't buy more than a couple of hours of President Alf Apps' time. How smart is that?

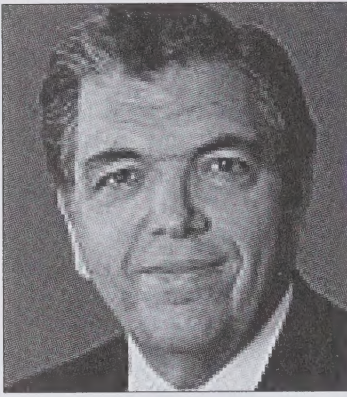
Why do I single out Toronto lawyers as smart? It's essentially because they have a very special skill when it comes to looking after their own interests. They embody the dictionary definition of smartness. Take the Charter, for example. It's a great and a good thing and was presented to the world as a gift to the little guy who is up against big government. But when the lawyers figured out what the Charter meant and its potential scope they grabbed and ran with it with both hands all the way to the proverbial bank. The leading case on freedom from search and seizure does not involve small-time drug dealers but Big Business resisting the competition watchdog. Freedom of speech may conjure up visions of a lonely orator on a soapbox but the reality of recent free-speech cases in the Supreme Court is the presence of Big Media represented by bank on bank of Bay Street lawyers.

Freedom of religion would seem to be deeply personal but the leading case under s. 2(a) of the Charter involved a challenge to Sunday closing by corporate retailers.

Freedom of association cases have recently involved big labour, major trade unions and big employers, all sides generally represented by Toronto lawyers.

In short, although lawyers in general have reinvented themselves and brought themselves up in the world, the gold medal should really go to Toronto lawyers who have exceeded all expectations in turning all of this to their personal advantage. They have, to quote the dictionary, "proved clever, adept, especially in looking after their own interests." In a word smart. In fact, nobody smarter.

The appreciation of the meeting was expressed by Don McCutchan, International Policy Advisor, Gowlings LaFleur Henderson LLP.



April 9, 2010

Charles (Chuck) Prince

Retired Chairman and CEO, Citigroup Inc.

THE CREDIT CRISIS: HOW DID WE GET HERE AND HOW DO WE EMERGE?

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

John Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada; Rev. Michael Clarke, Associate Priest, Christ Church, Brampton; Douglas E. Turnbull, Deputy Chair, TD Securities Inc.; Bill Butt, Executive Managing Director and Global Head, Investment and Corporate Banking, BMO Capital Markets; Stanley Hartt, Chairman, Macquarie Capital Markets Ltd., and Director, The Empire Club of Canada; John Sherrington, Vice-Chairman, Scotia Capital; Rod McIsaac, Executive Vice-President and Head of Investment Banking, HSBC Securities; and George L. Cooke, President and CEO, The Dominion of Canada General Insurance Company.

Introduction by Alfred Apps

Chuck Prince

Well good afternoon, it's a great honour to be here in Toronto and I am here today because of my respect, admiration and fondness for Stanley Hartt. Stanley called me a while ago and asked me to speak to the Empire Club of Canada and I said, "Stanley, for you, anything." It was really supposed to be yesterday, but it was delayed a day because I was summoned to Washington to testify in front of something called the "Financial Crisis Inquiry Council." Some of you may have seen reports of that in the newspaper this morning, and I don't know if CSPAN is up here, but unfortunately some of you may actually have seen it on television. Did anybody see it on television? Oh get a life. I told Stanley that no matter how rude and obnoxious the questions are here today they won't be anything like yesterday's.

Normally when I'm in Washington I'm helping my old friend Madeline Albright, former Secretary of State. She has a firm, Albright Stonebridge Group, which is a consulting business and Albright Capital Management, which is an investment firm focusing on the emerging markets. We spend a lot of time out in the parts of the world that I used to think about a lot for Citi. Yesterday was not as much fun as working with Madeline.

I want to talk for a few minutes about three different topics and I'm going to go through each of them relatively quickly so that there is time for questions at the end. I welcome questions on any topic, including the Blue Jays.

The first topic is what happened in the financial crisis. I understand Hank Greenberg was here yesterday. Hank is a very smart fellow and he may have covered a lot of this. The second topic was what happened to Citi in all this? How did it actually work when the earth moved? And lastly, some modest thoughts from at least one Florida retiree about what is likely to be coming in the future.

So what happened in the financial crisis? I think the financial crisis was and is an enormous event which required the confluence of a number of factors. It wasn't just one factor. As I said yesterday in my prepared testimony, the absence or change of any one of these factors would have caused the financial crisis to be avoided or moderated in a very significant way. What were these factors?

I think these are the important ones. First, after the emerging markets financial crisis of 1998, we saw a massive change in capital flows. All of the enormous dollar reserves that had been built up in the emerging markets, post 1998, grew in that time period and were re-invested back into U.S. markets, into treasuries and a lot into GICs. From an emerging market's standpoint, this made a lot of sense—to be a cushion against another crisis. From the standpoint of the U.S.A., and I'll use the word U.S.A. as emblematic of western economies, it seemed to be a positive—borrowing costs were lower than they would have been otherwise, and it seemed like a win-win for everybody for a long period of time. Rates were artificially lower than the economies of the times would have suggested. You'll remember many people talking about a new paradigm of risk: we've entered the great moderation of risk and so forth. During this period of time in the 2000s, people began to reach for yield, looking for ways to increase the returns they got on their invested funds, and I will tell you in advance that at the end of this speech, I'm going to talk about why that is still true today. During this period of reaching for yields, in about the middle of that decade, we saw an explosion in the growth of securitized products.

There was a belief that by financial engineering you could create products that were higher yielding but still relatively safe, creating different tranches of products and different priorities in terms of cash flows and thus creating products, which were actually higher-yielding but still

safe. That required securitization as a process, and there is an asset at the bottom of every collateralized debt obligation (CDO). Credit-card receivables were securitized, corporate loans were securitized, and auto loans were securitized. But the demand for securitized products in this period of artificially low interest rates outgrew the ability to create underlying assets to support the securitized products. That's when sub-prime loans began to grow dramatically. So in sequence, in 1998, 1999, and 2000, growing foreign reserves were invested back in the U.S.; in 2001 the tech bubble burst and 9/11 occurred, and interest rates were cut to support the economy. As a result you see a reaching for yield and the growth of securitized products in the 2002, 2003, and 2004 time frame. Finally you see the growth of sub-prime mortgage loans in the U.S. in 2005, 2006, and 2007 to support these securitized products.

Sub-prime assets grew for a lot of reasons. One of the reasons was a long-standing bipartisan policy in the U.S.A. to encourage home ownership. You'll go back and see that Fanny and Freddy were actively encouraged to take on sub-prime loans. Home ownership as a model in the U.S.A. to cement the middle class has been a policy since the end of WWII, and involves tax deductibility of mortgage interest, something you don't have here in Canada. That process was encouraged by both Republicans and Democrats. Accordingly Fanny and Freddy went out and bought more and more of these loans and that demand pulled more and more product through the system.

Sub-prime loans, like all mortgages, are originated by brokers out in the field. Someone will go door-to-door and try to sell loans. These were not only purchase-money loans to buy the house, but they were also home-equity loans. So you had a growing and growing army of brokers out there originating loans. The process for regulating the origination of mortgages in the U.S.A. is not done at the federal level and most states will not do it either. In most

states, brokers are not regulated and the product is not regulated. We've all seen stories about low-documentation loans, about signature loans, about not having to state your income and so forth. There was a growing sense—this is all in hindsight of course which is easy—but there was a growing sense that the loan quality of the underlying asset was getting poorer and poorer. It wasn't thought to be so bad but was degrading. If you think of securitization as a factory process it got to the point where it was a little bit of garbage in and garbage out towards the end. The late '06 and early '07 tranches of the sub-prime mortgages became so bad, that the early '07 tranches began to fall off into arrears frequently. That led to the ratings downgrades in the September/October timeframe of 2007, and that combined with the mark-to-market accounting that was required of institutions, caused massive write-offs. That's a quick overview of what happened from my perspective.

Now, let's make it personal. What happened to Citibank in this conflict? Citi Group was a combination of Citibank and Travelers Insurance in 1998. It's a great company but what people don't remember was that in 1997 Travelers bought Salomon Brothers. So when Travelers and Citi Corp merged in the fall of 1998, Salomon Brothers was imbedded into the new company. Salomon Brothers has long had a history of being the largest and most sophisticated of fixed-income business on Wall Street. That business grew along with all of Citi Group's other business.

I want to take you now to 2003 when I became CEO. When I became CEO, I thought the largest issue we would have to grapple with was the growth of our U.S. consumer business. We had an enormous credit card business, a big consumer finance business and so forth and relatively small branch banking. Trying to grow that in a market where credit cards were saturated was quite complicated. As it turned out, I spent the first two or three years of my

tenure as CEO dealing with regulatory issues. You will recall the Elliot Spitzer problems on Wall Street. We also had a big problem in Japan. All that played into my background as a lawyer. I was a lawyer for a long time. We got to, and I'm sure Stanley still remembers it fondly, what we called the five-point plan, which was an effort to imbue all of our employees around the world with a sense of the magnitude of the franchise—nearly 200 years old, the largest bank in the world, the most international bank in the world, don't look for short-term profits, look for the long term etc. By '06 I think we had done a little bit of turning the ship around and I would say happily since in that timeframe the institutions had not had any of those kinds of problems.

Come now to 2006–2007. This was a good time for Citi. We were doing well for the first six months of 2007. The first two quarters of 2007 were the best in the 200-year history of the institution. In July of 2007, we had an off-site for the board as we do every July, and we talked about strategy and how we wanted to grow the business.

In August, the problems we had seen in the sub-prime markets starting with HSBC's problems in the early part of the year and then Bear Stearns began to get worse, and it got worse and worse and worse. At Citi the biggest issues we were dealing with at that time, about August 2007, had to do with leveraged lending to private-equity/buy-out firms.

In September for the first time, I heard about something on our books called CDOs. Now obviously I know what a CDO is and I'm sure most of you know what it is, but it turned out that our folks in terms of issuing these residential mortgage backed securities (RMBS) had retained on our books something called a super-senior tranche of these securitized products. And the super-senior tranche was the very top level of the securitization process. For these purposes, securitization is basically an ordering of cash flows among priority holders and practi-

cally, no matter how bad the default got, the super-seniors would get all the cash. That was the structure of these super-seniors. Allan Greenspan was quoted early in 2007 as saying they would someday replace or supplement U.S. treasuries because they were so safe. In March of 2007, the International Monetary Fund said there was no way that the residential problems would ever touch super-seniors. Moodys in May of 2007 said the super-seniors would not be affected by the deteriorating market in residential securities. I'm a little bit chastened about the smart people's opinions on this subject.

In October 2007, in the space of two or three days, all of the rating agencies downgraded all of the super-senior tranches from AAA+ to junk status. Overnight. Just like that. Overnight. No warning. These were in our trading books; these were mark-to-market accounting. The market for them evaporated instantly. We were holding \$40 billion of AAA+ securities against an equity base of \$120 billion. Now, those of you who run companies, I'd like you to put yourselves in the position of waking up one morning and having a third of your equity go away overnight. Add to that a business that needs to be funded daily. Now this was a situation where this \$40 billion or so was on a balance sheet of \$2 trillion. It represented far less than 1 per cent of our assets; it represented far less than 1 per cent of our revenues and profits. The day that the downgrade happened, we thought we were dealing with losses in the range of \$100 million.

I will never forget the Saturday—I had gone out to see my mother in New Jersey—and I was driving back up the New Jersey turnpike to my home in Greenwich Connecticut. I got a call from our CFO, who said to me, "Chuck I've got some difficult news for you." I've since found out that the definition of difficult is quite complex. I said, "What is it Gary?" He said, "I've been downtown all day, we've been working on these CDOs and super-seniors and so forth and it's not going to be \$100 million."

We earned about \$5 billion a quarter after tax. I said, "Well how much is it going to be?" He said, "Well I think it's going to be a lot more than that." I said, "Okay, well how much is a lot more than that?" He said, "I think it's going to be about \$8 billion." So I went from trying to manage a 100-million-dollar loss to an \$8-billion loss while driving in the left lane of the New Jersey turnpike. I can tell you exactly where I was when that happened. And every time I drive past that spot I'm a little "whooooaaaa." That Saturday afternoon, I told my wife Peggy what happened and said, "If it is true, if it is correct, I will resign." I spoke with Bob Ruben on Sunday. All day Monday I worked with the guys. The numbers went from \$8 billion to \$11 billion. I decided to stop working; it was getting worse. Then it went back to eight and then 4 o'clock on Monday I called our lead director and walked over to his office and handed him my letter of resignation. Since then, Citi has actually written off most of that \$40 billion. That is the distinguishing characteristic between what happened to Citi Group and to the other banks in the U.S.

The losses on leveraged lending were pretty much the same as Goldman, Bank of America. The losses on our consumer book were pretty much the same as everybody else. The super-senior tranches of the CDOs retained on our books—riskless, according to the rating agencies, riskless according to regulators—punched a giant hole in the side of the boat. I was grateful just now to hear Reverend Clark's mention of me in his invocation and I wished I'd had it three or four years ago.

Here are a couple of thoughts on my sense of what's coming.

- i) Regulatory Changes. I think not many. I think they will be incremental. Banks will have higher capital reserves, but I think that's kind of irrelevant honestly. I know there are regulators in the room who would say, "Shouldn't you have held more capital?" As I said to somebody, "Well, sure if you could

figure out which assets would go from being riskless to junk in 24 hours you would definitely want to hold capital against those." If you could figure that out, you wouldn't hold them in the first place! So, just holding "more capital," increasing the ratio from x to y to z, isn't going to make a difference. That's a rear-window view of what to do about this crisis.

- ii) The Economic Situation. We're more likely than not to have flat economies for the next five or six years. The economy is not going to go up dramatically and I honestly don't think it's going to go down dramatically either, because the safety net of the federal government in the U.S.A. and other countries is going to support that. We're not going to have gigantic inflation in the near term, because the deflationary effect of the collapse of the credit bubble will absorb the inflationary impulses that the government is putting in and I think the cross-over in that up escalator and down escalator is going to be out five or six or seven years. Others think shorter, and they may be right.

The long-term choices we face in the western economies are difficult and are more likely to lead to inflation than not. Here is something I tore out of the Washington Post this morning when I left. It doesn't have to do with me and my testimony yesterday. The article is headlined, "Debt is Ballooning into a Global Crisis. Developed Nations May Have to Raise Taxes and Cut Programs." Many of you in the room will wonder why that is front-page news but it is. I quote, "This mounting government debt poses a painful choice for developed countries such as Britain, Japan and the U.S.A. Either a deep re-ordering of public expectations on everything from the retirement age to tax rates or slower growth as record levels of borrowing crimp economic activity." I think we're more likely to have flat economies for a while

than a robust recovery. In developing countries—China is an example—the banks are the intermediaries for passing capital. The banks have been pumping out loans like crazy; we've all seen that. There is undoubtedly going to be a period of time when many of those loans will not be good and we'll see, I think, a time when the government simply recapitalizes the banks and has plenty of money to do that.

When I started this address I discussed capital flows. We haven't solved that. Those capital flows are still building up in China and some of the other developing countries. They're still being reinvested in the West. That's causing an artificial reduction in what ought to be the rate environment.

You've read just as I've read about the many bubbles in the emerging markets and the many bubbles here and so forth. Those of you who manage money are not happy with a 1-per-cent return. You're not saying to yourselves, "Gosh this is a kind of conservative environment and I'm okay with the 1 and 1.5 per cent." You're talking to all your managers and you're saying, "Who's got the 8 per cent this quarter and we want to put more money with him or her." Everybody has still got that underlying notion of reaching better yields and we have not solved that issue. In some ways you have to go back 20 or 30 years before the tech bubble, before the '90s to find a "stable" economy that isn't in a boom-and-bust cycle. We haven't solved that issue.

We lived in a period of time—I lived in a period of time—when there's been great faith in "the markets"—the openness of markets, the ability of markets to solve problems, and the discipline of the markets. As I travel around the world, I find that that model is under a lot of discredit. I was in China late last year and I talked to the Vice-Chairman of something or other and I said to him, "I guess it's going to be a while before a U.S. treasury secretary comes over and lectures China on how they ought to

open their markets.” He smiled and said he thought it would be a while. I could remember trying to buy banks in India and having to observe the Bank of India say, “Absolutely not.” India has done pretty well. Canada has an open system, but it’s a little more closed than it was in the U.S. Canada has done well. I think we’re at a turning point in the whole notion of deregulation, the whole notion of market discipline and so forth, and I hope without expecting, that we’re headed toward a period of time where more thoughtful regulation and moderation of unconstrained capitals, pools of capital, will be something that we’ll be living with.

With that, I thank you and I’ll be happy to answer any questions.

Stanley Hartt: I’ve got the task of sorting out these questions. Chuck, did the senior management ever run an analysis of how the value of senior CDOs would change with say a 10-per-cent decrease in house prices?

Charles Prince: The answer to that is yes. Our folks did stress testing all the time. The first thing I did when I became CEO in 2003 was put in a new Head of Risk, David Bushnell. David was a trader many years ago and we made the risk function completely independent of the businesses. They weren’t paid based on volumes or profits. They didn’t report to the business people. They reported to me and the audit committee. They did stress tests all the time. I can remember David telling me many times not in the context of CDOs, but in other contexts, that we would have to have a decline of 30 per cent nation-wide in real estate prices for there to be a problem. Again it wasn’t on CDOs; we never even thought about those. Even in the depression we didn’t have a 30-per-cent nation-wide decline in housing prices. We would stress test, and I don’t know specific numbers but 5, 10, 15 per cent. None of the stress tests contemplated what happened.

Stanley Hartt: Can banks get too big and if yes, what is big?

Charles Prince: I get asked that a lot because Paul Volcker's got this theory that all banks should be small enough to bail and nobody should care. Paul is a good guy and a good friend, but the notion that we should have tiny institutions, any one of which could fail, I think is a false premise. First, they could all fail at the same time. Secondly, you'd have enormous inefficiencies. The reason that institutions have become big is because there are efficiencies that come from having large capital bases. You can't engage in many of these transactions unless you have sufficient capital to do it. You can't operate in multiple countries unless you have sufficient capital. In any event, the U.S.A. government over the last three or four years during the crisis has enabled a further consolidation of the financial services. When we come out of this in a couple of years, there will be fewer and larger institutions, not the other way around. So, everything points the other way and I don't know what the definition of "big" is. It used to mean something to me. Now it's different.

Stanley Hartt: Here's a toughie. What's the next asset class that has a similar structure or has similar structural issues as sub-prime? What will be the next problem?

Charles Prince: I'm not going to tell you! The answer is of course, nobody knows, because the super-senior tranches were thought to be absolutely super-safe. I guarantee you that it won't have anything to do with mortgages. I was once talking to group and a fellow raised his hand to ask a question. He thought he was asking a pretty rude question. He said, "When do you think they're going to get into the mortgage business again or what do you think they have learned from this?" I said, "I guarantee you we will not have a problem with mortgages in the next 10 years." But that doesn't mean we won't have any problems. Right now people are focused on Greek debt and sovereign debt, and is that possible? Sure it's possi-

ble. Is it likely? My guess is no because it's in front of us. The next big one won't be in front of us. It will be something from the side that nobody has thought about.

Stanley Hartt: Should the role of rating agencies and the regulatory framework be changed, and if so, how?

Charles Prince: The rating agencies are a complicated subject. On the one hand, the increasing complexity of products makes it more important for a rating agency to be there. People need to rely on somebody to read the 200-page prospectuses that are put out. Anybody who does the business knows most investors don't read the prospectuses. The rating agencies put labels on these things and people work off the labels. So the function of the rating agent is vitally important. Again in the U.S.A. we have a model where it's a private activity and it's a largely unregulated activity. I'm not a fan of lawsuits but in the U.S.A. rating agency opinions are largely exempt from lawsuits because of the theory of commercial free speech. So the rating agencies have a free pass in terms of how they do things and so forth. It doesn't mean that they don't get yelled at by the regulators, but they're essentially not regulated. It's very much an oligopoly. There are only three and there's no real prospect for growing new ones. I think if you had a situation where the regulators work to encourage the growth of new ones you would be in a much better situation. But we're going to have to rely on rating agencies as we move forward.

Stanley Hartt: Should there be regulations in additional areas such as private equity, hedge funds or others?

Charles Prince: I'm a lawyer by training. I'm very comfortable with a regulated environment. I can remember going to meetings where they would gather the heads of all the banks to meet with Tim Geithner, or to meet with Hank Paulson—and at a certain point in the dinner I would raise my hand and I would say, "You know, I think we really ought to have a little more regulation." That was

not a popular view in the room. So, personally I think yes, there ought to be more regulation.

Think of the derivatives market, where the notional amount of derivatives outstanding is more than the sum of the GDP of all the nations in the world. It's crazy, literally crazy. I think that in insurance (I used to be in the insurance business), there was a concept of insurable interest. I can't take a policy out on your house, a fire insurance policy on your house, because I have no insurable interest in your house. I really think, and again this is not a popular view in the USA, that a concept like that ought to apply to the derivatives business. Whenever regulatory changes are proposed for the derivatives business, the first thing people say is, "Well, you know, the farmers do this to protect themselves against changes in the crop prices going forward" and that is probably 4 or 5 per cent of the entire market for commodity derivatives. Airline companies protecting themselves against spiking oil prices is a tiny percentage of the derivatives activities. Most of the derivatives activities are just pure speculation, just naked gambling. From my standpoint, if I were king for a day instead of Prince all the time, I would move towards a regulatory environment that required some kind of insurable interest to be in the derivatives market.

Stanley Hartt: I just think that's the most important thing that's been said today, given that there's as you said, 55 trillion plus of credit to default swaps out there. To what extent is the view that you just expressed, of insurable interest as opposed to pure gamble, held by senior financial industry officials and regulators?

Charles Prince: Well I would say unfortunately, almost never. And again it's awkward to have that view because if you think about shrinking the market to reflect that, you would have to shrink the capital markets dramatically. What would the size of the markets then be? Where would the rest of the capital go? We have moved a long

way down the road towards this very speculative gambling kind of economy and to move back is quite difficult. We were talking earlier about how you make choices, sometimes uninformed choices, or being unaware of the consequences. Then you find yourself too far down the road and it's very hard to go back. I think there's a little bit of that here. The view I've just expressed is not common. It doesn't even approach a minority view.

Stanley Hartt: We've got a lot of really good questions and we're not going to get to all of them but let me get personal here. According to Greg Zuckerman's book, "The Greatest Trade Ever," Jamie Dimon didn't know what a CDO was in 2006. He's seen as a winner out of this, and Martin Sullivan of AIG is seen as a loser. Who do you think did a great job and who did a bad job leading in the crisis of all the companies?

Charles Prince: Well both of those guys are my friends. I talked to Martin yesterday about something and Jamie of course I worked with for 20 years. I think it's not so much who did a good job and who did a bad job. On the CDOs, you can look at the firms that had major market positions in the CDO business and every firm that had a major position in the CDO business got killed. And every firm that didn't have a major position in the CDO business didn't get killed. It's just as simple as that. Those of us who had the lion's share of the market got killed by it. But it wasn't a matter of Martin wasn't smart. Jamie is very smart but Martin is also smart. You have to have a little luck in life sometimes and the ball just bounced a particular way.

Stanley Hartt: I'm going to ask three questions together because they're really on the same theme but I'll read them the way they're written. What impact will the Basel 3 proposals have on the U.S. economy and in contrast, the global economy? The second question is: "How important is a level regulatory playing field, i.e., what would happen if the U.S.A. or another large country

doesn't follow the rest?" Finally: "Do you advocate micro-credential or macro-credential policies to regulate the credential industry?"

Charles Prince: I'm not 100-per-cent up-to-date on the new rules, I apologize. I left that behind on November 4, 2007. But I think it's likely that you're going to find the banks and other financial institutions have more capital in sort of a rough sense. So instead of having 20-1 leverage you'll have 10-1 leverage or have 8-1 leverage or something like that. That will simply mean that the returns that the banks have will be lower.

In terms of a level playing field, I don't think we have a level playing field and I don't think we're going to have a level playing field. China and other places don't have a dis-intermediated credit market. The banks are the conduit between the borrowers and the lenders. In the U.S.A. the securities firms are the intermediaries between the borrowers and the lenders and some of the securities firms are today bank holding companies. But I view that very much as a port in a storm. I expect those ships to sail out of that port as quickly as they can. So between dis-intermediated economies and non dis-intermediated economies, I don't think you're going to have parity. I think that's just the world we're going to have to live in.

Stanley Hartt: I'm going to finish with this last question on a completely different note: "What was the most important lesson you learned from Sandy Weill?"

Charles Prince: Oh gosh. I don't think I could pick one. There were a lot. There were a lot of books about Sandy Weill. I would say the most important lesson I learned from the financial crisis is not to rely on the ratings agencies and not to rely on common wisdom. I don't know where that takes you and I mean that seriously. If, in 2006, I had gone downtown to our fixed-income people and had said to them, "Look, I just found out about these super-senior tranches, and I understand that they're rated AAA+. I understand that everyone thinks they're riskless,

from Alan Greenspan on down, but you know, I really think, based on my legal training, we ought to get rid of those." No one would have had any idea what I was talking about.

So you don't rely on others' determinations. I don't know where that leads you. I think that if you see a situation like the junkie nature of the origination of the mortgages that everybody saw, then maybe you'd get away from that business completely but not because the CDOs were bad but just because something bad is bound to come out of that somewhere. Again, that's with a little bit of hindsight. I guess you should at least try to learn in hindsight because you can't learn in foresight.

I'm grateful Stanley for your invitation, thank you.

The appreciation of the meeting was expressed by Stanley Hartt, Chairman, Macquarie Capital Markets Ltd., and Director, The Empire Club of Canada.



Julie Dzerowicz, Executive Director, The Empire Club of Canada, Charles Prince, Retired Chairman and CEO, Citigroup Inc., Bonnie Brooks, Senior Counsellor, Hill & Knowlton Canada, and Stanley Hartt, Chairman, Macquarie Capital Markets Ltd., and Director, The Empire Club of Canada.



April 15, 2010

Anthony Lacavera

Chairman, Globalive and Wind Mobile
Communications

21ST CENTURY CANADIAN TELECOMMUNICATIONS POLICY: THE WAY FORWARD

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Verity Craig, Managing Director, CV Management, and Director, The Empire Club of Canada; Rev. John Niles, Senior Minister, St. Andrews United Church, Markham; Hailey Coleman, Founder, Damn Heels (Student Entrepreneur); Arlene Dickinson, CEO, Venture Communications, and Co-Star, CBC's Dragons' Den; Tony Gagliano, Executive Chair and CEO, St. Joseph Communications; John Sheridan, CEO, Ballard Power Systems; David Naylor, President, University of Toronto; Anetta Jewell, Partner, Great Lakes Brewing Co., and Director, The Empire Club of Canada; Mike Harris, Senior Business Advisor, Cassels Brock, and Former Premier of Ontario; and Stanley Hartt, Chairman, Macquarie Capital Markets Ltd., and Director, The Empire Club of Canada.

Introduction by Alfred Apps

Anthony Lacavera

Hello everyone. Thank you for taking the time to be here today and thanks to the Empire Club for inviting me to speak today.

Many of you know I'm a University of Toronto (U of T) graduate and an entrepreneur. Now let's get one more thing off the table.

Forget the rumours. My name is Tony and I AM Canadian. What's more? Globalive is a proudly Canadian company. It is a company of Rishis and Nishas, of Peters and Joes, of Marwas and Mohammeds; a company as proudly diverse as this country itself. It is a company that was conceived by a bunch of U of T students in my modest apartment 12 years ago, many of whom continue to help build Globalive today. It's a company that wasn't on the radar for a long time. It emerged steadily, looking for the niche opportunities in telecommunications that the incumbents ignored. With no capital, resources, or connections, it is a company that grew from zero to \$125 million/year in less than a decade, rolling out telecommunications solutions across Canada. To call us anything but Canadian would, quite simply, be untrue.

But, that's the kind of fear-mongering that the incumbents would like to seed in order to continue their anti-competitive hold on the Canadian telecom market; a market that has underserved Canadian consumers for a decade and one that has been hamstrung by a national oligopoly and provincial duopolies.

Take Ontario and Alberta for example. We have an 80-per-cent market share held by two companies in those provinces. As a result, it's been a pretty cozy ride for our well-run incumbent providers—Rogers, Bell and Telus—otherwise known as the Big Three.

They have entered each other's territories in friendly ways, embarking on co-operative efforts wherever it makes sense.

They are well capitalized and enjoy some of the highest profit margins in wireless in the world, earned through practices that limit competition and negatively impact consumers, including long-term contracts with unreasonably high rates and silly, nonsense fees for fictitious network services.

So, what has been the outcome of their wireless reign?

Today, Canada grossly lags the developed wireless world. While consumers in Japan have been watching mobile TV for four years, the incumbents still have customers thumbing it out on a 2G network.

Our wireline replacement rate is 8 per cent for Canadian households as compared to 21 per cent in the U.S. The average mobile wireless customer in Canada pays over 2.2 times more per minute than customers in the U.S.

Canadians have access to far fewer brands and choices than other nations. The incumbents will argue that there is plenty of choice in Canada—seven brands, not three—failing to promote the fact that they own the flanker brands—Fido, Koodo, Solo, and Virgin.

And, what is most concerning? Our penetration still sits at 67 per cent compared to about 89 per cent in the U.S. and over 100 per cent in most of Europe. The stark reality is that penetration in Canada ranks last in the OECD—thirtieth of 30 countries. Dead last.

Sadly, it is customers who have felt the sting. The “pay more, get less” philosophy that has permeated Canada’s wireless market has driven Canadians to consistently demand more competition for close to a decade.

Why does more competition make sense?

When the Telecommunications Policy Review Panel issued their report in 2006, it stated: “A world-class telecommunications industry is essential for enhancing Canada’s competitiveness in global markets and Canada needs a policy and regulatory framework that removes impediments to competition and innovation.”

Obviously the lack of real competition has significant impact on costs for consumers and businesses, and deeply important follow-on consequences for innovation and productivity in the Canadian economy.

The panel report helped facilitate the decision to ultimately open the wireless spectrum to new entrants in 2007.

At that time, we felt that we were well positioned to take advantage of the open auction and our steady growth in the market had primed us for the opportunity.

We knew that in order to purchase enough spectrum to compete nationally, we'd have to find a partner and investor with substantial scale, operating experience, staying power, and a long-term horizon in order to build a viable competitor to the incumbents and regional cable operators. We searched across Canada and ultimately around the world for a strategic investor, and we secured a partnership with Weather Investment and Orascom Telecom—the largest mobile operator in the world in emerging markets, with over 125 million subscribers, over six times the Canadian incumbents combined.

We knew that Globalive could harness the global perspective and best practices in wireless from around the world and bring it to Canada. We knew that it would take that kind of strategic investor to truly bring competition to market nationally, to bring wireless pricing down, to bring innovation up, and to finally bring a new choice to Canadians.

Our success in the auction catapulted us from the telecom periphery into the public eye and into the incumbent's direct line of fire.

What ensued was a firestorm of activity surrounding one crucial question: "Was Globalive, with the Orascom partnership, Canadian enough to become Canada's fourth national wireless provider?"

It's an ironic question posed by the incumbents because many Canadian telecom carriers started up their businesses with the help of foreign capital.

Bell Canada was started by Charles Fleetford Sise, an American.

The British Columbia part of TELUS, then BCTel, undertook its major expansion in the 1920s when it was owned by Theodore Gary, an American.

AT&T, an American company, was instrumental in the establishment of Unitel, which subsequently became Allstream.

And in his memoirs, Ted Rogers conceded that he had issues with compliance with the Canadian ownership rules during the high-debt, high-growth days of his business, and the list goes on and on.

Frankly, the biggest hurdle we faced as an organization as we embarked on this undertaking, was not an operational-readiness hurdle. The biggest obstacle for us was access to sufficient capital on commercially viable terms.

And, quite simply, the reason why we had to go abroad to seek capital is because it was not available on Canadian soil to the extent required. The pool is small and Bay Street is entrenched with the incumbents and their business interests.

Other new entrants will argue differently. But let's remember that they did not seek financing to invest in enough spectrum to build a national lasting alternative to the incumbents. The \$1-billion price tag required us to seek and obtain foreign capital if we wanted to actually compete in a national capacity.

With the financing in place, the spectrum purchased, the licenses granted, the network being built and a team of over 700 hired and ready to launch, we ran into a minor snag.

At the urging of the incumbents, the CRTC created an unprecedented process that led to a highly subjective finding that control in fact lay with Orascom Telecom. We

profoundly disagreed with that assessment, as did the Government of Canada, which varied the CRTC decision, allowing us to ultimately launch our wireless service.

Let's be clear. We fit very comfortably within the existing rules, standards and laws of Canada. We have invested a great deal of money on that conviction.

So, 19 months and almost \$800 million of investment later, WIND Mobile launched in Toronto on December 16, 2009.

The launch, although highly hailed by consumers, has also seen its fair share of early barriers:

- Despite offering very attractive terms we have been unable to secure any material Canadian investment to date;
- Bell Canada bought out the remaining 50 per cent of Virgin Mobile that it did not already own to shore up their flanker position;
- Bell and Rogers recently purchased Craig Wireless spectrum for \$80M—more Wi-Max spectrum to add to the incredible amount they already own that they are not using;
- Fellow new entrant Public Mobile has filed suit with the government demanding the cabinet decision varying the CRTC decision be reversed;
- Although we have made over 100 requests to date we have not successfully shared a single tower with any of the incumbents despite the Industry Canada policy mandating tower sharing.

But, folks, competition is alive and well in Canada!

Despite these challenges, we are already bringing real change to the Canadian wireless industry.

Since WIND has entered the market, we are already seeing the incumbents offer more flexibility and choice. Prices are being challenged and lowered, and features and customer service are improving.

We have also taken a very unique approach in building a community of Canadians and asking them what they

would like to see in their wireless provider. We respond quickly and find, over and over again, that they have ideas that improve our offering and our relationship with them.

In short, competition has finally begun.

And it couldn't come at a better time. Globally, the growth in consumption of content on mobile phones is exponential. Content is becoming on-demand and increasingly personalized. Highspeed wireless networks combined with advanced smart-phone devices will make all forms of video, voice, data, and application services available to wireless users 24/7/365 on location on demand.

So, in the midst of this transformation, how do we create a globally competitive telecom industry that advantages consumers while fostering the development of Canadian content?

Looking forward, we believe it will take three major policy changes:

1. We must liberalize current foreign ownership rules, as recommended by the Telecommunications Policy Review Panel.
2. We must facilitate access to foreign capital for telecommunications.
3. We must move forward with a policy review on the separation of broadcasting content policy from telecommunications carriage.

How do we do it?

First is to simply add more competition to the marketplace which we are doing. But the prerequisite to competition is more capital. Economists know this, and the government knows this.

Companies like ours, like the smaller telecoms across Canada and start-ups not yet formed, need capital. Not just capital, but lots and lots of capital, if they are to form an effective, lasting competitive alternative to the incumbents.

Unlike mining and resources the Canadian capital markets for telecommunications are very small.

More importantly, the business interests of our large Canadian investors with the telecom incumbents make it virtually impossible to access Canadian capital to the scale that is required.

Ladies and gentlemen, we can't have it both ways.

If we want full, real, telecom competition in Canada, we have to be able to fund it.

If we can't fund it in our own backyard, then we have to allow for foreign capital. Access to global capital markets will create more interested and qualified investors competing to fund Canadian telecom infrastructure.

If we're serious about competition to provide greater benefits for Canadians then we have to allow the free market to work.

Full stop.

And, I will argue passionately that it does not pose a risk to Canadian culture or Canadian sovereignty to make those global capital markets available to Canadian telecom infrastructure players.

We have to differentiate between companies building infrastructure from companies creating content that will be distributed on our infrastructure.

Ultimately, we want the biggest pipes at the lowest possible cost. The critical issue for the development and advancement of Canadian culture is what is moving through our pipes, not the sources of capital used to fund them.

Would we use more expensive capital to build a hydro dam and pass on higher-cost electricity to Canadians as a result? Would we use more expensive pipes to bring water to Canadian homes? Of course not.

Mobile operators should be able to build next-generation networks with a globally competitive cost of capital and broader access to expertise from international operators that have built very large networks in many different

countries and bring a perspective on international best practices to Canada, as we have done.

Finally, foreign control restrictions should be removed and replaced with a more flexible structure that encourages and facilitates foreign investment where that investment benefits Canada and Canadians and restricts it where it does not.

Globalive endorses the recommendations originally made by the Telecom Policy Review Panel back in 2006 and reiterated and supported in the Red Wilson Report in 2008. Both represent fair, balanced and thoughtful responses to the realities of Canadian telecom.

So where does that bring us? Without delay Canadian telecommunications infrastructure entities must be able to access foreign capital to foster a competitive market.

There are great opportunities to create and develop Canadian programming and content with the right policy framework. Canada can develop into a content-export nation instead of always working to protect Canadian culture from being overwhelmed by U.S. and international influence.

Foreign control restrictions should be removed and replaced with a more flexible structure that facilitates foreign investment where that investment benefits Canadians and restricts it where it does not.

I am a very proud Canadian who believes that we can do better. I've been building Globalive with the prospect that we will do better, that we're on the cusp, and that one day soon our innovations in telecommunications will be sought and envied by other nations.

Nobody in this room thinks that thirtieth of 30 is good enough.

The standard for these changes shouldn't be about whether they are good for the Big Three or for us. It should be whether they improve the lives of Canadians. That's what I envisioned when I set out on this road all

those years ago and that's what we plan on building toward in the years and decades to come.

Thank you very much.

The appreciation of the meeting was expressed by Stanley Hartt, Chairman, Macquarie Capital Markets Ltd., and Director, The Empire Club of Canada.



Anthony Lacavera, Chairman, Globalive Holdings and Wind Mobile, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



April 22, 2010

Julie Dickson

Superintendent, Office of the Superintendent of
Financial Institutions Canada

THE RISKS ASSOCIATED WITH SUCCESS

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Rev. Chris Miller, Minister, Oriole York Mills United Church; Tom Bogart, Executive Vice-President, Business Development and General Counsel, Sun Life Financial; Sonia A. Baxendale, Senior Executive Vice-President, CIBC, and President, CIBC Retail; Grant Mackenzie, CEO, Macquarie Financial Limited; Susan Wolburgh Jenah, President and CEO, Investment Industry Regulatory Organization of Canada (IIROC); George L. Cooke, President and CEO, The Dominion of Canada General Insurance Company, and Director, The Empire Club of Canada; Tim Reid, Director, Business Development, ZED Financial, and Director, The Empire Club of Canada; Donald Guloien, President and CFO, Manulife Financial; Barbara Stymiest, Chair of Executive Council, Canadian Bankers Association; and Stanley Hartt, Chairman, Macquarie Capital Markets Ltd., and Director, The Empire Club of Canada.

Introduction by Alfred Apps

Introduction

It is a pleasure to be here with you today.

Canada has received a lot of international attention recently, in part due to the strong performance of our financial sector through the global economic crisis.

This has focused quite a lot of attention on the Canadian financial system, and, by proxy, on the Office of the Superintendent of Financial Institutions, which we refer to as OSFI. This attention is not something we are used to; normally, our 500 employees toil away behind the scenes, and we are best known by those who work in the financial-services sector, or in other government agencies.

OSFI is the primary regulator and supervisor for all federal financial institutions and pension plans. This includes all banks operating in Canada, many life insurance and property and casualty insurance companies, and all federally regulated private pension plans. In total, we are responsible for the prudential oversight of about 450 financial institutions in Canada and over 1,300 pension plans.

It is a pretty important role, and while OSFI may not be the subject of dinner table conversations just yet, it is nice that there is less need to explain our function today than there used to be.

We are often asked what we think contributed to the performance of Canada's financial system during the crisis. Some factors that I think played a role include robust regulatory rules in the areas of capital and leverage; a regulatory system where all banks, and all of their subsidiaries (including investment banking), are under the scrutiny of a single regulator; and a clear mandate for OSFI that stressed early intervention. Our banks themselves also demonstrated that they generally had strong risk-management systems.

As the world at large began to notice that Canada seemed to be avoiding some of the stresses being experienced in other countries, OSFI, as the federal regulator and supervisor of Canada's financial institutions, began receiving a lot of enquiries from international news media, and the requests to speak at international financial conferences have more than quadrupled.

All this is well and good, but I am appreciative of the chance to explain today that while accolades are nice, they tend to create additional risk, and managing risk is what banking supervision is about.

What are the additional risks that all these accolades for the Canadian system might create?

1. There is a risk that the public will become confused about what OSFI's job is, and to think that our job is to prevent all failures; it is not.
2. There is a risk that OSFI could become complacent and think the current rules and way we supervise are sufficient. This is not necessarily the case. Another risk is that OSFI could become too focussed on risk.
3. There is a risk that institutions will assume that capital and liquidity rules will not change much, because Canadian rules were robust going into the crisis. While this view is somewhat understandable, it is not guaranteed.

These risks must be ever present in our minds.

Due to the number of bank failures and taxpayer subsidized bail-outs of banks globally, but not in Canada, more people now know what OSFI does. We act to reduce the risk of failure of banks.

Focusing on risk management is what we do, and this brings me back to the risks I mentioned previously.

Risk 1—Expectations: Financial institutions cannot fail

It may be tough to imagine this now, but in the late '80s/early '90s there were many financial institution failures in Canada involving banks, trust companies, and insurance companies.

These financial institution failures led to what was then a major reappraisal of financial-sector legislation in Canada. This is the central reason that about 15 years ago OSFI was given a legislative mandate, which made it clear that OSFI's primary responsibility was to protect the savings of depositors and policyholders of federal financial institutions. The mandate also stressed the importance of early intervention to deal with problems.

OSFI was not tasked with shareholder protection, or protecting dividend payments or reviewing the fine print of consumer contracts. OSFI was tasked with protecting the money owed to Canadians who have deposits or insurance policies with federally regulated financial institutions. Full stop.

If OSFI were responsible for protecting shareholders and their dividends, then OSFI's requirements would be much stricter than they are currently, and shareholders would find that there would be virtually no upside potential in their investments, as profit comes with risk taking. This would also seriously affect the availability of credit in the economy.

While we are to protect depositors and creditors, the mandate did not go so far as to say that no institution should ever fail. Rather the Act is clear that institutions take risks that in some cases can lead to their failure.

Indeed, taking risks is what institutions do; every loan made carries the risk that it will not be paid back.

The fact that the Act said that failures can occur does not mean that it conveyed a message that OSFI could sit back and relax. Rather, it told us to identify problems early, and deal with such problems "expeditiously."

Taking action expeditiously can help ensure that small problems do not become big problems. It can also mean taking control of an institution to protect the assets of depositors (and to protect people who might be about to deposit money into the bank).

Canada's success, as well as global efforts to re-regulate the financial sector, may be creating the expectation that banks will be so well regulated in the future and hold so much capital that they will be bullet proof, and there will never be another failure. This creates even more risk, as it creates the impression that no one—no shareholder, no uninsured depositor—will ever lose money (except taxpayers, who will be the ones having to ride to the rescue if the perception is that no institution should ever fail).

The message that banks can fail is clearly part of the proposals for legislative reform in other countries, such as the U.S. The nuance is that, if failures occur, every effort should be made to avoid major disruptions in the system, and every effort should be made to ensure that equity holders and uninsured debt holders bear losses, so as to reassert market discipline.

Risk 2—Buying into the hype: OSFI could either become complacent, or even more focused on risk

The perception that institutions cannot fail is one risk. The second risk I want to talk about today is how Canada's success could affect OSFI. At one end of the spectrum, the risk is that OSFI could become complacent by deciding that our system of oversight works just fine and we do not need to make any improvements. At the other end of the spectrum, OSFI could decide that our system of robust oversight of risk management worked so well that we should become even more risk-averse going forward.

With respect to the risk that we could become complacent, there is a saying that you learn more from failure

than from success. Indeed, two countries that have done well in the crisis—Canada and Australia—experienced some serious failures in the past (HIH in Australia, 2001) and then began a process of building their supervisory and regulatory capacity. Learning lessons from the school of hard knocks, as Canada and Australia did, paid off in this crisis.

If you do learn more from failure than success, the risk for OSFI is that we will be lulled into a sense of complacency, given the accolades and given that Canada performed so well in this crisis. To deal with this risk, we have been watching closely what other regulators have been doing and we have been making changes.

For example, both stress testing and system-wide reviews of risk areas in banks are key elements of supervisory strategies adopted by U.S. regulators in response to the crisis. Like the U.S., OSFI has significantly increased its focus on stress testing, and system-wide reviews will continue to be a priority.

Recently we created a unit to assess corporate governance, as boards are a key control on risk appetite. This is an area where the U.K.'s Financial Services Authority (FSA) is also putting a great deal of effort.

Living wills for financial institutions are also being embraced. This is requiring large institutions to think about the possibility of extreme ill health and even their demise, and plan for it (just as we all have to think about such things).

So yes, Canada may have fared better than other countries during the recent turmoil, but OSFI needs to continue to learn and improve our processes. Thus, changes are in the works at OSFI as the next crisis will most certainly come from a direction we do not expect.

While OSFI is looking closely at what other regulators are doing, we are also encouraging others to look at us.

I believe other countries should look at the mandates, independence, resources and incentives of regulators, as I

think it is pretty important for success, and an area where Canada's model worked. As well, I have been noting that supervision—the daily interaction and oversight of financial institutions by supervisors—is as important as new rules. Supervisors are the people who identify risk-management problems at individual institutions and decide what to do about them. This is a critical function and helps make institutions safer and limits losses.

The other risk I mentioned is the risk that, given the praise our prudent approach has received, OSFI could become even more conservative. Definitely, OSFI's culture is one of prudence, and we will tend to be more conservative than the industry we oversee. However, because over the years OSFI has often heard that we were being tougher than some regulators in other countries, this risk was always front and centre. When a risk is front and centre, I think it tends to be better managed than when it is lurking in the shadows. We do surveys of industry people to try to assess whether we have the balance right. We also open ourselves to external assessments quite frequently, for example by the International Monetary Fund (IMF).

For OSFI, finding the right balance between what we could be doing better, and what we have done right, is essential.

Risk 3—Status quo: The need for new rules and the complexity in gaining international agreement will be underestimated

In discussing the risk that the need for new rules and the complexity in gaining international agreement will be underestimated, it is important to note that I am referring to Basel capital and liquidity rules, i.e. rules set by prudential regulators like OSFI. I am not referring to global bank levies, which is the subject of discussion by the IMF and the G20, although I will say that such levies, from my perspective, are fraught with difficulty and unwise. Contingent capital is the better way to go.

While Canadian capital and leverage rules going into the crisis were robust and seen as part of our success, banks should not assume that G-20 countries will simply adopt Canadian rules and call it a day. There are several reasons for this.

First, a crisis causes everyone to re-think, and go back to basics. Starting from square one involves asking basic questions, such as whether core capital should be common shares and nothing else, what deductions should be made from capital and why, or whether there needs to be a contra-cyclical capital buffer. Such re-thinks often lead to changes.

Second, many regulators from other countries feel they have a lot to offer in terms of what the new capital and leverage rules should be. After all, they have experienced a deeper crisis and a deeper recession and are applying lessons learned and reacting to their experience. In the context of international rule making, their views are as valid as ours. They might think they can develop a better mousetrap now precisely because the crisis hit them so hard.

Third, some countries have very different systems than the Canadian system and things we take for granted are not feasible for them. For example, some regulators do not have flexibility to increase capital; they have to rely on a capital level in a statute and can only act if a bank breaches the level. They might also have inadequate supervisory resources. Thus these supervisors might want high levels of capital (in rules) to compensate for lack of powers elsewhere. OSFI has considerable powers, so this is not as big a concern in Canada and we think it is inappropriate to rely only on capital, as it can give you false comfort.

Fourth, many regulators do not have legislated mandates telling them what their job is. Or, if they do have a mandate, it may be a very different mandate than what OSFI has, which will lead them to take very different posi-

tions than OSFI might take. Some supervisors think their job is to prevent failure at all cost, so they might advocate extremely high levels of capital. Some supervisors believe their job is to promote the financial sector, so they might prefer lower levels of capital (this is another reason why agreeing on the supervisor's job is fundamental).

Getting international agreement can be difficult due to issues as basic as mandates, legal systems, and experiences during the crisis. While Canadian banks are better situated than many right now, they should not assume that no changes will be forthcoming.

So does that mean Canadian banks will have to adopt new capital and leverage rules that might not make sense for them. After all they did well in the crisis, so why ask them to do more?

In response I would say that it is premature to draw conclusions about what the final capital and liquidity rules will be. We need to give the process a chance and a critical part of the process is really just beginning: last week (April 16, 2010) was the due date for comments to the Basel Committee on Banking Supervision (BCBS) on the proposals for enhanced capital and liquidity rules that were released in December, and in two weeks' time, global banks have to provide detailed quantitative impact study results to their supervisors. The latter will ultimately give us a global snapshot of the potential impacts of proposed changes to these rules. Concurrently, an international review of the macroeconomic impacts of the proposals has begun. With it is an international top-down analysis of the incentives that might be created by the rules.

This information will enable us to have in-depth discussions of what the capital rules should be. We anticipate decisions in early fall. By year-end 2010, it is anticipated that the new rules will be announced for implementation by the end of 2012. The Basel Committee will also consider appropriate transition and grandfathering arrangements.

Having the facts and figures and reports on macroeconomic impacts will enable us to tackle basic questions, such as how much capital is enough? As a bank, do you need enough to cover any possible crisis, or do you need enough to maintain market confidence in such a crisis, allowing you to go to market to raise more?

In Canada we would say that in developing the new rules, too little capital is lethal but if too much capital were required under the new rules, then that too can be a big problem. We continue to think that in Canada we had it about right: banks had enough capital to maintain market confidence when the crisis hit and consequently were able to raise more. Many banks in other countries were not able to retain market confidence and had to go to their governments for support.

The work to develop a new capital regime is a challenge because we want to get this done quickly to reduce uncertainty about what capital requirements are going to be, but we want to get it right, and the issues involved in setting capital rules are complex.

Will there be international agreement on a new set of capital and leverage rules? No one can say for sure, but we have always been able to reach an agreement in the past. Assuming there is agreement, there must then be a concerted effort to ensure they are implemented globally. Steps have been taken to try to ensure that this happens. Specifically, an international peer-review process has been agreed to by Financial Stability Board (FSB) members. This is like having a global police force that will be checking implementation of what has been agreed to. Canada is very well positioned to influence this as Canada chairs the FSB group that is responsible for peer reviews.

Thus going forward I think there will be considerably less scope for countries to agree to a set of capital rules, but then not implement them. This outcome will be dependent on the effectiveness of the peer-review process.

We will continue to use our influence to affect the outcomes. While we are a small country, our success has not gone unnoticed and our voice has more weight as a result. Further, I think that globally, having Canada on board with the final rules will be seen as important, given our track record. But as noted, changes are coming and the status quo is not going to be the outcome.

It is also in the interest of Canada's banks to continue to demonstrate the sound business decisions and prudence that they are known for, and which were seen as strengths in the crisis, and this also means preparing for change.

Conclusion

In conclusion, Canada's success through the global financial crisis creates risks that we need to keep in mind.

First, we should not conclude that we run a "no-failure policy" in Canada and that OSFI's job is to prevent all failures. OSFI constantly assesses whether we have the balance of risk taking right, but the risk of loss and failure needs to exist.

Second, we learn more from failure than success, so OSFI has to continually consider its supervisory and regulatory practices. We need to continue to learn from our experiences and improve our processes, while also promoting areas where we think we have it right.

Third, because of our success, we should not assume that nothing will change and that internationally everyone will agree to adopt our rules as they currently stand. Indeed, some changes are necessary. Canada is well placed to influence international negotiations, but agreement usually means that no country gets everything they want, and we need to be prepared.

Thank you.

The appreciation of the meeting was expressed by Tim Reid, Director, Business Development, ZED Financial, and Director, The Empire Club of Canada.



April 29, 2010

Annette Verschuren

President and CEO, Home Depot

CANADA-CHINA SERIES—HOME DEPOT'S EXPERIENCE IN CHINA

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

John Walker, Senior Vice-President, RezzBuzz/CorpShorts, Canada, China, U.S.A., United Kingdom, and Director, The Empire Club of Canada; Rev. Vic Reigel, Reverend, Christ Church, Brampton; Sandeep Achar, MBA 2010, Queens University, and Winner, 2040 FOCUS National Competition; Maureen Siu, Director, Hong Kong Economic and Trade Office; Peter Harder, President, Canada-China Business Council; Beverly Brooks, Senior Counsellor, Hill & Knowlton, and Director, The Empire Club of Canada; Mme. Liu Yi, Commercial Counsel, The People's Republic of China in Toronto; and Don Crowe, Divisional Director, Energizer.

Introduction by Alfred Apps

Annette Verschuren

Hello. Good afternoon. Nimen Hao.

Thank you, Alfred, for that kind introduction. It's great to be here with you to talk about China: a market that is equal parts an unimaginable opportunity and an incredible challenge; an economy that grows at breakneck speed in a centuries-old society where patience remains the most important virtue; a place where the door is now wide open for business, but where a lack of understanding of business and cultural norms can be a challenge; a country with one time zone, where that one child is the centre of the universe, where governments and institutions plan and look forward in decades, not quarters or years; a country investing heavily in infrastructure, from roads to ports, from wind to water and nuclear power to drive long-term economic growth.

Make no mistake, China is a contradiction. It may be the toughest emerging market to crack, but the opportunity for business knows no bounds.

The country's consumption share of GDP will rise from 36 per cent in 2005, the lowest of any major economy in the world, to 45 to 50 per cent in 2025.

Chinese incomes are expected to rise 8 per cent in that same time period.

In many ways, the reason for China's incredible economic growth is urbanization. Since 1990, nearly 400 million people have left the countryside for larger urban centres. Estimates suggest there could be as many as one billion Chinese living in urban centres by 2025.

With this shift from rural agricultural production to industrial and commercial jobs come increased wealth, private home ownership and material possessions.

We've seen an explosion of middle-class and affluent consumers. As recently as the year 2000, an overwhelming majority of Chinese consumers were "poor" according to a recent McKinsey study.

By 2020, the same study estimates the majority of the population will be "middle-class"—with an emerging affluent population.

China is a fascinating subject, one that would take days to discuss in detail. In the interest of brevity, I'd like to keep our time together relatively focused.

We'll discuss The Home Depot's Chinese business. How did we get to China and what does our business look like today? We'll talk about some of the things we've learned, and how we've adapted to this vastly different market. And finally, I'll leave you with my best advice about how to approach China as a business leader.

The Home Depot entered the Chinese market through an acquisition. We bought The Home Way, a 12-store big-box home improvement chain operating in northern China.

The early days of our retail operations in 2007 were a humbling experience, to say the least. Across North America, we are the well-known market leader in home improvement.

In China, we had 12 stores in six cities of a country of 1.3 billion people. Yes, we started small. And from the very beginning, we knew there was a chance we'd have to make some changes.

When we made the deal with The Home Way, we knew there was a good chance two of our stores likely wouldn't work. One wasn't a fit for our business model; it was off on its own—two hours away from our other stores. The other came with significant property and landlord issues. We made the difficult but right decision to close both of those stores in 2009.

From the day we opened our business development office in 2004, we've been clear that our first step would be to get our business model right. And that's what we're focused on right now.

So today we have 10 stores in China in four cities: Beijing (two), Tianjin (five), Xian (two), and Zhengzhou (one).

Opening a new market in a foreign country takes time. With The Home Depot's success in Canada today, it's easy

to forget that our early days in this country weren't always easy.

We knew opening the Chinese market would be tough. We knew it was a long-term project.

There's an ancient proverb any business leader entering China would be wise to remember: "Qian Li Zhi Xing, Shi Yu Zu Xia," which means a thousand-mile journey begins with the first step.

Ten stores is that first step for The Home Depot. But in taking this first step, we've already learned so much.

Take the housing market as an example. Seventy per cent of Chinese home-improvement spending is focused on the completion of new home interiors, typically in high-rise buildings. When a Chinese customer takes possession of a new home, especially in an urban centre, they typically receive a cement box, which they're responsible to "finish." And "finishing" means everything from plumbing and electrical work to interior decorating.

This is vastly different from the market we're used to in North America. We've learned that seasonal items like lawnmowers and patio furniture aren't as important to the Chinese customer.

Instead, they're looking for a wide selection of products like wood flooring, kitchen fixtures and appliances.

Our stores in China sell auto accessories, small furniture, and have expanded home organization departments. We also think there's an opportunity to bring customers into our stores by focusing more on consumable products.

But the structure of housing in China also creates opportunities.

Real estate is a particularly attractive investment option for Chinese customers, because the financial sector offers few other investment options.

People buy homes like we buy RRSPs: to save for their future. And the Chinese are big savers—much bigger than

in North America—with a savings rate approaching 25 per cent of take-home income.

In Beijing, this means it's not hard to find people who own two, or even three, properties. But like everything else in China, the structure of housing is changing. Today, we see more builders providing the basic amenities we see in Canada. With homes nearing the 25-year mark, we see a growing renovation market. But to meet the needs of the market, foreign home-improvement retailers must adjust to a very different environment, where you'll find very few "do-it-yourself" customers.

Home ownership, as we know it in North America, has only existed in China for 20 years.

With that lack-of-ownership history, the Chinese often rely on an extensive network of trades-people to complete home-improvement projects.

Chinese consumers play an engaged role selecting the products trades-people install in their homes, but in many cases, our customer is a tradesperson, or "pro." This fundamental difference means we have to market effectively to both consumers and trades-people, who may be receptive to very different messages.

One approach we've found especially effective is to establish The Home Depot as a project manager for home-improvement projects—as a means to get our products into Chinese customers' homes.

Earlier, I spoke about the importance of our focus on getting the business model right and this is a great example.

The Home Depot's success in China depends on not forcing North American marketing and merchandising practices in a region that won't accept them. It depends on adapting our strategy to work for 1.3 billion people, instead of asking 1.3 billion people to adapt to us.

Now, I'm not suggesting we should turn our back on the do-it-yourself market. As home ownership develops a longer history in China, I firmly believe our expertise in

providing know-how to our customers will be among The Home Depot's greatest strengths.

Painting a home is one do-it-yourself project a Chinese consumer might consider, especially when moving into a resale home. Paint colours as a decorative option are relatively new, as is the concept of using colour chips to show customers the options available.

Understanding the difference in the Chinese market, we worked with Behr, a supplier of top-quality, environmentally friendly, low VOC paint to invest heavily in promoting colour choices to our customers. The result: our partnership with Behr is at least partially responsible for paint being the fastest-growing category in our Chinese stores.

Product quality is more important in China than ever before. As purchasing power increases, the affluent Chinese consumer has grown tired of inexpensive, low-quality products.

For The Home Depot, this is a huge opportunity to bring our high-quality proprietary brands—names like Ryobi, Husky and Hampton Bay—to the Chinese market. Some of these products are made in China, making distribution easier, but production still has its challenges.

By providing high-quality products, we have an opportunity to capture our share of the urban-affluent Chinese population. Urban-affluent Chinese account for just 1 per cent of the population, but more than 10 per cent of urban disposable income.

Another area of focus in China is the environment.

The Home Depot now has more Eco Options-verified products on its shelves in China than in Canada and the United States. And we're working with our vendor partners—names like Kohler and American Standard—to bring more and more water- and energy-saving products to market.

It's important that we "get it right."

If a customer buys an environmentally friendly product for the first time, we must ensure they have a good experience.

If a customer makes a long-term decision about something new for their home, we'll ensure they understand the environmental and economic benefits of making that decision.

This focus on customer education and satisfaction is good for business, to be sure. But it's also an opportunity to reduce China's environmental footprint in the long-term—something that should be a priority for all of us.

While The Home Depot's ability to affect environmental change in China is still in its infancy, I'm proud of our efforts to influence Chinese customers into making more insightful choices.

The final learning I'll highlight today is that of differences in the Chinese retail environment.

Today, our biggest competitor in China isn't another foreign-owned big-box store. It isn't a big name like B&Q or Orient Home. It isn't Lowe's, who doesn't have a presence in China. In fact, the top-five big-box home improvement retailers in China account for only 15 per cent of total market share.

Our fiercest competition comes from our vendors and distributors. In addition to selling through the big-box chains, many vendors sell their wares directly to customers at highly negotiable prices in large, market-like environments. The unpredictable nature of our competitors' prices and the strong prevalence of an underground, tax-free economy make it a challenge to achieve price leadership.

To combat this problem, we've implemented a system of competitive shops to ensure we're priced right in the key categories, such as toilets and sinks, lighting and paint.

So, we've spoken about The Home Depot's experience in China, and some of the lessons we've learned.

Before moving on to your questions, I'd like to leave you with my best advice on entering the Chinese market:

- Don't underestimate the Chinese consumer. Chinese customers are tough, savvy and want good prices. More than ever before, they're focused on product quality and safety;
- Forge partnerships with government; and
- Be patient and approach China as a second home market, placing as much emphasis as you do in North America.

Approaching China as a second home market underscores the importance of local leadership.

I always believed the success of The Home Depot's Chinese business will be a result of our Chinese leaders and in-store associates. And I still think that's true today.

As North American leaders, our role is to transfer knowledge, open doors, and to provide coaching and guidance in key areas of the business.

For The Home Depot, merchandising and store operations are two areas we believe our North American leaders can make the greatest difference.

I was asked to assume leadership of our Chinese business in 2006, a time when The Home Depot's U.S. stores needed to get back to basics and focus on improving the core business.

While our team in Atlanta focused on our U.S. stores, the Canadian team was asked to bridge the gap, to get our Chinese business up and running, and to set the table for future success.

Frank Blake, our chairman and CEO, has done a great job of righting the big ship. It's no accident that our stock price has nearly doubled in the last 18 months.

Today, The Home Depot's performance in the U.S. is stronger than it's been in years. And the time is right to leverage the power of that big ship—the strength of our U.S. business—to guide the Chinese team into the future.

For the past year, I have worked on our Chinese business with Bill Lennie, our senior vice-president, international merchandising. Bill is a 15-year veteran of The Home Depot and one of our strongest leaders. He oversees our Chinese sourcing offices, playing an important role in the success of the proprietary brands I spoke about earlier.

Moving forward, Bill will also play a greater role on the operations side of the business. I will remain involved in China, but in more of an advisory role.

The truth is, running two businesses on different sides of the world makes it tough to take full advantage of the great opportunity we have here in Canada.

We're coming off a strong year in 2009, despite the economic downturn. And we have aggressive plans to grow and improve our Canadian business.

There are so many questions about China and so much to cover. I'd be more than happy to take your questions.

The appreciation of the meeting was expressed by John Walker, Senior Vice-President, RezzBuzz/CorpShorts, Canada, China, U.S.A., United Kingdom, and Director, The Empire Club of Canada.



May 19, 2010

The Hon. John Manley

President and CEO, Canadian Council of Chief Executives

PREPARING FOR G20: CANADA'S PRIORITIES IN A VOLATILE WORLD

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Vivian Prokop, CEO, Canadian Youth Business Foundation, and Director, The Empire Club of Canada; Axel Arvizu, President and CEO, La Tortilleria; Ilse Treurnicht, CEO, MaRS Discovery District; Gordon Giffin, Former U.S. Ambassador to Canada; Timothy E. Hodgson, CEO, Goldman Sachs Canada Inc., and Director, The Empire Club of Canada; Robin Sears, Senior Partner, Navigator Ltd., and Director, The Empire Club of Canada; Peter Munk, Founder and Chairman, Barrick Gold Corporation; and Gerry McCaughey, President and CEO, CIBC.

Introduction by Alfred Apps

John Manley

Thank you for the opportunity to be back at the great and historic Empire Club! If I'm not mistaken, I was last here as

minister of finance, having presented a budget. Did I forget to mention that I budgeted a \$4 billion surplus, which came in at \$9 billion?

Those were the days, my friend. We thought they'd never end!

As some of you know, I started a new job this past January. After 16 years in the House of Commons and five as counsel to a great Bay Street law firm, I crossed over to the dark side.

No, wait—that didn't come out right.

Actually, depending on your view of lawyers and politicians, you might be inclined to think I crossed over to the dark side a long time ago. I grew up in Ottawa and before I became a politician I practiced law. As a new minister of the Crown, a Vancouver Sun columnist described me as "an Ottawa lawyer, two of the most pejorative words in the English language." So, two strikes before even taking the first pitch.

To be honest, though, I'm pretty proud of a lot of things my colleagues and I accomplished in the government of Jean Chrétien. For the most part, I think we provided Canadians with good government, and we managed—with the help of a lot of people right across the country—to improve the lives of Canadian workers and families in a number of significant and practical ways. We inherited what at the time was the biggest federal deficit in this country's history and we succeeded in transforming it into a string of annual surpluses.

We cut taxes, both personal and corporate, and we took several steps to enhance public investment in research and development. After 9/11, we worked closely with our American counterparts to improve border security and to protect jobs in both Canada and the United States by trying to ensure the efficient flow of goods, services, business travellers and tourists.

We weren't perfect, and I'd be the first to admit that a great deal of work remains to be accomplished in every

one of these areas. I'll have more to say about that in a few minutes. But to use a football metaphor, I do believe that we moved the ball forward. And, fundamentally, I believe strongly in the importance of public service, and in the value of sound public policy.

By the way, I don't mean to suggest for a minute that the government in which I served had a monopoly on good ideas. Canada wouldn't be the country it is today had it not been for a succession of competent, capable governments—and for a non-partisan public service that is truly one of the most admired in the world. We spend an awful lot of time in this country focusing on the things that divide us and on the mistakes that are sometimes made by people in public life, but the truth is that we enjoy a remarkable consensus on most of the big issues that matter in the life of a nation. And I firmly believe that there are few places on earth where ethical standards in public life are as high as they are in Canada.

I know a lot of people are cynical about the motives of those who seek elected office, and I also know that many Canadians believe the words “waste” and “government” are synonymous. But we wouldn't be one of the most prosperous and successful countries on earth if our governments and our political leaders weren't doing a lot of the right things. And if you don't believe me, let me give you a simple comparison involving two countries—Canada and Argentina.

At the beginning of the 20th century, the economies of Canada and Argentina were pretty much on par in terms of the standard of living enjoyed by their citizens. Each country was blessed with an abundance of natural resources. In 1904, Sir Wilfrid Laurier famously predicted great things for Canada in the 20th century. His contemporaries in Argentina would have been justified in feeling the same way about their country.

Yet a century later, the average Canadian is more than five times better off than his or her counterpart in

Argentina, based on GDP per capita. Why the difference? Quite simply, that gap in standard of living is a reflection of the impact of public policy and the quality of public governance. Canadians are demonstrably better off today because our governments by and large have pursued sound policies and have provided honest government.

So public policy matters. Now I know what you're thinking: if I believe so strongly in the essential role of government in shaping our national destiny, what am I doing now as the President and CEO of an association that represents about 150 leaders of private enterprise? Why am I now a business lobbyist? (Talk about two pejorative words!)

The answer is pretty simple. It's precisely because governments play such a vital role in directing the economic and social health of our country that it's important for business to play its part in advocating for sound public policy.

I would go even further and suggest that in Canada today, there is a desperate need for organizations such as ours to provide a national voice on the issues that will profoundly affect the lives of Canadians for generations to come. To deal with the challenges of the modern world, we need leadership in our public institutions that is not afraid to talk about complex issues in a serious manner, telling the truth about some of the hard choices that face us. We need journalists who approach public policy as something more than entertainment. We need citizens who insist upon being treated as intelligent adults who care about their country and demand an improved level of debate and discussion about the issues that matter.

That's where I think organizations like the Canadian Council of Chief Executives (CCCE) can play a valuable role. At a time when so many of us seem to be stuck in our silos, I see it as our job to help set the context for debate on serious issues of public policy ranging from competitiveness to trade, public finance, taxation, energy,

the environment and national unity. And to the extent that we have succeeded in this role over the past 30-plus years, I think we have done so because we have always tried to look to the broader public good, putting forward constructive ideas that are firmly rooted in fact and objective analysis rather than the self-interest of individual members. And we are non-partisan; we will share our perspective and advice with anyone who cares to listen.

Of course, we don't expect that governments will agree with us on every issue. And it goes without saying that political decision makers need to take into account the views of a wide range of interests in society, not just the business community. But there's no question in my mind that the 150 business leaders who comprise the CCCE can make a valuable contribution. Collectively, they represent an enormous amount of experience and knowledge acquired by running successful companies that employ large numbers of Canadians and that do business in almost every corner of the world.

Canada's record as one of the world's most successful trading nations depends heavily on the ability of large, globally engaged Canadian companies to compete with the best the world has to offer. In an increasingly challenging global economy, they are out there on the front lines—selling, trading, building partnerships and creating opportunities for Canadians. When they succeed, they create jobs, pay taxes, reward shareholders, and collectively strengthen Canada's brand and influence in the world.

And when Canada does well—when our living standards are rising, when our health care and educational systems are contributing to a higher quality of life, when Canada is viewed internationally as a good place to invest and work and grow—Canadian businesses tend to prosper as well.

This is a big year for Canada, as we host not only the Olympics, but also the G8 and G20 summits. As we pre-

pare for these important events, let us think a bit about the current environment and some of the key challenges and opportunities facing Canada today. There are a number of factors that significantly change the context for these meetings.

The first thing is that the global economy is more volatile now than at any time since the Second World War. The financial crisis, that began in 2007 with the collapse of prices in the U.S. housing market, in turn contributed to the collapse of a number of major financial institutions, sharp declines in stock market and real estate valuations, the shattering of consumer confidence around the world, rising unemployment and calls for massive infusions of public money to arrest the downturn and prime the pump of economic recovery.

Earlier this year it looked to some observers that we had finally turned the corner on the so-called Great Recession, but recent events in Europe show that those hopes may have been premature. The difference now is that in addition to worrying about over-extended consumers and homeowners who can't pay their mortgages, we also have to deal with the consequences of all that stimulus spending and the resulting explosion in levels of sovereign debt.

Most recently, the spotlight has been on Greece, where years of unrestrained government spending have saddled the country with a national debt larger than its entire economy. The question some people are now asking is whether Greece is a harbinger of further debt crises elsewhere in Europe and beyond, and whether the contagion will continue to spread to other countries with high debt-to-GDP ratios, the so-called "PIIGS" (Portugal, Ireland, Italy, Greece and Spain). Nobody knows for sure, but it would be foolish to assume that we are out of the woods.

At the very least, the European Union's massive bailout plan for Greece is going to exacerbate the fiscal pressures on other European governments, exerting a drag on eco-

nomie growth for years to come.

So where is Canada in all this? The Elizabethan poet John Donne wrote that “no man is an island,” and the same is true of a country’s economy—particularly now in the age of globalization. But although our exports fell and unemployment rose when the recession struck in 2008 and 2009, Canada has performed relatively well by international standards.

It used to be said that when the United States sneezes, Canada catches a cold. This time it was different: the impact of the recession was not as severe in Canada as it was on the other side of the border. Nor have we suffered as badly as Europe. According to Statistics Canada, our economy shrank for three consecutive quarters, from the autumn of 2008 through to the summer of 2009. Elsewhere among the nations of the G7, the recession lasted anywhere from four to six quarters.

Of course, this doesn’t in any way lessen the pain for those Canadians whose jobs and incomes have been affected by the downturn. But the trend is at least moving in the right direction. Last month the number of Canadians with jobs rose by 109,000—the largest monthly gain in percentage terms since 2002. The jobless rate, which peaked at 8.7 per cent in August of last year, now stands at 8.1 per cent. Meanwhile, the consensus among international forecasters is that Canada will lead the G7 this year and next in economic growth.

Clearly, we have a lot going for us. Our financial system and institutions were tested during the financial crisis and have proved sound. Canada’s banking system is now widely viewed as the most stable and efficient in the world. Meanwhile, inflation and interest rates remain low, our currency is strong, our public deficits and debt remain modest relative to those of our major partners, and our tax rates are looking increasingly attractive.

It’s an encouraging picture. But if there is one message I want to underscore today, it is that we should not, must

not, be complacent. It wasn't sheer luck that enabled our economy to perform comparatively well during the downturn. Yes, we benefit from being a major supplier of energy and other raw materials in an era of rapid demand growth from emerging economies. Canada is rich in natural resources and we should never take that endowment for granted.

But the most important reason for our economy's relatively good performance over the past couple of years is that we entered the downturn in a position of fiscal strength. I talked a few minutes ago about the importance of sound public policy, and here is a perfect illustration. In the 1990s, Canada almost hit the debt wall—the same wall that Greece has just crashed into, and that a number of other countries are getting dangerously close to. In 1995–96, the federal government's debt was greater than two-thirds the size of our total economy. The Wall Street Journal proclaimed that we had attained honorary Third World status, and as someone who served in government at that time, I can tell you that it was a scary time.

Fortunately, as I mentioned earlier, we became serious about reducing our budget deficits, and three years later we announced the first of a string of surpluses. It wasn't easy. We had to cut spending, which is something no politician ever likes to do. I was industry minister at the time, and my department lost 50 per cent of its budget and a quarter of its head-count. We also had to raise taxes—not in terribly obvious ways, but by benefiting from less than full indexation of tax brackets (so-called “bracket creep”), large surpluses in the unemployment insurance account, increasing user fees, privatizations and so on. And by the way, we were helped enormously by the fact that during the 1990s interest rates were falling—which meant that each year it was costing us less to service the debt, while simultaneously stimulating private-sector investment. Let me tell you: when you're carrying a mortgage of close to \$600 billion, lower interest

rates are nothing short of a godsend.

That pattern of federal budget surpluses continued until the 2008–9 fiscal year, and in the process successive Liberal and Conservative governments drove the federal debt-to-GDP ratio down to 31 per cent. As a result, when the recession struck we were in a position to ratchet up public spending—to borrow more, in other words—without seriously straining the capacity of the federal government to pay its bills.

I think the lesson here is obvious, but I'm going to say it anyway because it appears that not everybody understands. Governments, like consumers, can spend money they don't have, but they can't do it forever—and if they can't balance the books when times are good, they're going to be in big trouble when the going gets ugly. If they didn't know this already in Greece, they sure as heck know it now, because the banks just cut up their credit cards!

While Canada's federal debt is a much smaller share of the economy now than in the early 1990s, our governments collectively still owe a lot of money. New figures being released today by the bond-rating agency DBRS show that if you add unfunded government pension liabilities to taxpayer-supported debt, the federal and provincial governments combined owe more than \$1.2 trillion. That works out to about 78 per cent of Canada's GDP, a much higher percentage of our productive capacity than you might think if you were only paying attention to the federal budget.

My point is that even though Canada is in relatively good shape, we need to get back to fiscal balance as quickly as we can. It's not going to be easy. In some ways, it is actually going to be trickier than it was in the 1990s, because this time interest rates will be going up. To have any hope of stemming the tide of red ink, governments will have to keep a tight lid on spending. This will be an especially daunting challenge at the provincial level,

where every government faces the same huge problem: a public health-care system that is chewing up about half their budgets, with costs that are growing at about 6 per cent a year. This simply isn't sustainable: governments know it; the opposition parties know it; doctors, nurses and hospital administrators know it too.

One result, as in the 1990s, is that governments also will be looking for new sources of revenue. Quebec and Nova Scotia have been the first to bite the bullet and raise taxes. They almost certainly will not be the last.

Now, any form of taxation takes money out of the pockets of taxpayers today and hurts future economic growth. To the extent governments decide that higher taxes are necessary, the key question is how to raise the extra money while doing the least damage to future growth. To put it another way, how do you design a tax system that encourages investment and job creation, that improves your ability to compete with other jurisdictions, and yet allows governments to continue to provide services like health care, education, environmental protection, new roads, public transit and everything else we Canadians take for granted?

In answering that question, I start with the principle that taxation is a necessary evil, and thus tax policy should rely most heavily on the forms of tax that are least damaging to investment, job creation and competitiveness. That's why I support the decision of the Ontario and B.C. governments to harmonize their retail sales taxes with the GST. The Harmonized Sales Tax gives provinces necessary revenues while at the same time slashing the effective marginal tax rate on new business investment, which is what will drive more and better jobs in the years ahead.

That same concern for competitiveness is why I support the federal plan to lower the statutory corporate tax rate to 15 per cent by 2012. Corporate tax rates, both federal and provincial, have come down a lot over the past

decade, and those reductions have been supported by governments from the left, the right and the centre of the political spectrum. Behind this strategy is a recognition that few things matter more to Canada's economic health and future prosperity than our ability to attract and retain investment. For a number of years Canadians relied on a cheap dollar to make our goods more competitive in foreign markets, but those days are gone. To compete for investment today, with our dollar strong and growth in many of our export markets still weak, Canada needs a significant tax advantage.

The good news is that we have already made a lot of progress. By 2012—with the co-operation of most of the provinces, and assuming the planned federal cuts go ahead—Canada should have the lowest statutory corporate income tax rate in the G7. As well, our overall tax rate on new business investment will be below the OECD average.

I don't think we should underestimate the benefits of these changes. When you combine the impact of the HST with corporate tax reform and the elimination of capital taxes, we are transforming how Canada is seen by investors looking for good places in which, and from which, to do business globally. Just a few years ago, for example, Ontario's marginal effective tax rate on new investment was among the highest in the industrialized world. Forget the economic jargon for a minute and think about what that really meant. It meant that our governments were charging companies a premium for the privilege of coming here and employing Ontario men and women. Was it any surprise that a lot of them took their business elsewhere?

So reforming the tax system in a way that promotes business investment and growth is a hugely positive move. Another important step is to build on Canada's record as an exporting nation by enhancing our ability to trade and do business around the world. The CCCE has

taken the lead within the private sector by strongly supporting the current negotiations toward a new economic partnership with the European Union. This is, without a doubt, the most significant trade initiative that Canada has undertaken since the early 1990s, and it is the first time ever that the EU has negotiated such a deal with a developed country. If we succeed, Canada will enjoy the benefit of being both a member of NAFTA and a privileged partner of the EU, the world's largest single market and biggest investor.

India, too, is a market that holds promise for Canada. In 2008, the Canadian Council of Chief Executives, in a joint report with the Confederation of Indian Industry, recommended that our two countries begin negotiations as soon as possible on a broad economic partnership. I spent several days in India this spring and I am pleased to report that Canada and India are making progress toward this goal.

So overall, I'm pretty optimistic about Canada's prospects as we emerge from the downturn. We have a lot of things going for us. The recession forced our governments to run big deficits, but I believe Canadians understand why it's now vital to restore fiscal balance. Along with looking for ways to restrain spending, our governments are moving to reform the tax system in ways that will boost business investment and create jobs. And at a time when some other countries are resorting to beggar-thy-neighbour protectionism, Canada is pursuing a course of greater openness. These are all key ingredients of a winning economic strategy.

But there are other areas where there is still a lot of work to do, and one of the most glaring is in the area of productivity. This isn't a new issue, of course. As federal industry minister in the 1990s, I often expressed concern about Canada's lagging competitiveness and tendency to hide behind a low dollar rather than investing in innovation. For my sins, I was once depicted in an editorial

cartoon as a petulant Bart Simpson, forced to write 200 times on the blackboard, "I will not trash-talk corporate Canada!"

Unfortunately, the problem isn't going away. During the past 10 years Canada's annual labour productivity growth has averaged a pitiful 0.7 per cent. That's well below the U.S. pace and half the rate recorded in Canada during the 1980s and 1990s. The Bank of Canada says that if the current trend continues, our future economic growth will be cut by a third. Over the next decade, that would mean a loss of income of \$30,000 for every Canadian.

I'll be blunt with you. I don't know of a simple solution to this problem; I don't think anyone does. But there are three specific areas where Canadians, and Canadian companies, clearly need to pick up their game.

First, they need to increase their investment in the fundamental drivers of productivity: machinery and equipment, training, and innovation. Second, Canadian workers need greater access to the latest information and communications technology—the tools that let us do more, faster. And third, we need to find ways to ensure that Canadian companies invest more in research and development. Right now Canada ranks sixteenth out of the 30 OECD countries in business spending on R&D. In an intensely competitive global economy, we have to do better than middle-of-the-pack.

As I said, I don't pretend to have all the answers. But unless we fix this problem, our children and grandchildren are going to pay the price in terms of a lower standard of living, and I don't think that's acceptable to any of us. That's why a number of leaders from the business and academic communities have agreed to form a Coalition for Action on Innovation, co-chaired by Paul Lucas, President and CEO of GlaxoSmithKline Inc., and me. The purpose of the coalition is to build consensus behind a focused and achievable plan to strengthen Canada's innovation performance. Our advice will be

directed at both the public and private sectors, but we're under no illusion as to the capacity of governments to spend more given their already-stretched budgets. As a result, we're going to focus particular attention on what needs to change in the private sector, and on how Canada can maximize the contributions of its academic institutions to our national economic success.

For Canada's business community, this has to be a priority, which is why my organization intends to make the innovation agenda a central focus of its work going forward.

Another opportunity is the first-ever G20 Business Summit, which will take place next month just before the G20 Leaders Summit here in Toronto. Prime Minister Stephen Harper has written to each of the other G20 leaders to advise them of this summit, and Finance Minister Jim Flaherty has asked each of his counterparts to include two top business leaders in their summit delegations. The Canadian Council of Chief Executives will co-ordinate and host the G20 Business Summit.

I'm excited about this inaugural B20, as we are calling it, because I believe it is vital that governments and the private sector work closely together during this critical period in economic history. Since the recession began, governments around the world have spent heavily in a bid to arrest the slide and nurture a return to growth. An estimated \$3 trillion, all of it borrowed, went into this massive shot of fiscal adrenaline. But the spending binge is now winding down and the economic buzzword of the moment is no longer stimulus; it is austerity. Last week, Greece, Portugal and Spain announced tough new austerity measures aimed at reining in their public deficits and debts. Britain's new governing coalition is doing the same, cutting \$9 billion this year and vowing to get even tougher down the road. Most of the other G20 countries, Canada included, are looking ahead to, at best, several years of spending restraint.

With governments stretched to the limit, the responsibility for investment, growth and job creation now falls more heavily on the private sector. We need to ensure that public policy in Canada and elsewhere enables that growth. We need to oppose protectionism whenever and wherever it arises, and renew the push for multilateral and regional trade liberalization. We need to reform the international financial regulatory framework in ways that encourage the prudent management of risk, instead of imposing new rules that fail to address the causes of the global credit crisis. In particular, as the Government of Canada is proposing within the G20, we should be ensuring that financial institutions maintain levels of capital sufficient to prevent future failures, rather than levying a new global tax to pay for the bailouts of institutions that take excessive risk.

All of these issues will be on the agenda of next month's G20 Business Summit, and my colleagues and I are committed to offering practical, constructive advice to the leaders of the G20 nations.

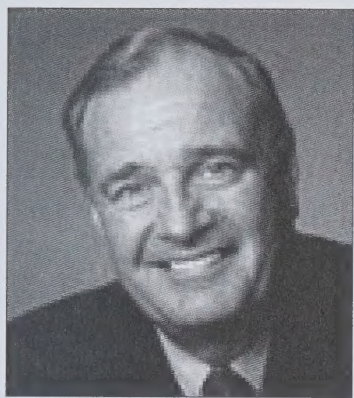
I began this speech by talking about my transition from politician to business representative, about Canada's strengths, and about the risks and opportunities facing Canada as we seek to build a more competitive economy and a more resilient society. For leaders around the world in government and in business, the immediate challenge is to make sure we are drawing the right lessons from the crisis that has shaken our economies since 2007. Equally important, we here in Canada need to fashion a consensus around the key elements of a strategy for growth and success. Getting there is going to require a frank assessment of our problems and a willingness to take tough action in addressing longstanding problems. On behalf of Canada's business leaders, I promise you that we are prepared to do our part in encouraging that conversation and in building that consensus.

Thank you.

The appreciation of the meeting was expressed by Robin Sears, Senior Partner, Navigator Ltd., and Director, The Empire Club of Canada.



John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleshman-Hillard Canada, and President, The Canadian Club of Toronto,, The Rt. Hon. Paul Martin, former Prime Minister of Canada, and Alfred Apps, Partner, Fasken Martineau, and President, The Empire Club of Canada.



June 2, 2010

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

The Rt. Hon. Paul Martin

Former Prime Minister of Canada

THE ROLE OF THE G20

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Allan O'Dette, External Relations (Ontario) and National Private Markets, GlaxoSmithKline Inc., and Director, The Canadian Club of Toronto; John Kirton, Co-Founder and Director, G8 Research Group, and Co-Director, G20 Research Group, Munk School for Global Affairs, University of Toronto; Thomas A. Bernes, Executive Director and Vice-President—Programs, Centre for International Governance Innovation; Seth Mersky, Managing Director, ONEX Corporation; Chan-Ho Ha, His Excellency, Ambassador of the Republic of Korea; John Capobianco, Senior Vice-President, Public Affairs, Edelman Canada, and President, The Canadian Club of Toronto; Mayor David Miller, Mayor, City of Toronto; Dr. John Niles, Senior Minister, St Andrews United Church, and Director, The Empire Club of Canada; Sara Giguere, Aboriginal Singer/Song Writer; David Naylor, President, University of Toronto; Larry Tanenbaum, Chairman and CEO, Kilmer Van Nostrand Co. Ltd.; and The Hon. Frank McKenna, Deputy Chairman, Toronto Dominion Bank.

Introduction by Alfred Apps

Paul Martin

In three weeks the G20 will hold its fourth summit in less than two years.

It is good that it is taking place in Canada whose initiative originally gave birth to the G20 attested to by the presence here of the three Canadian think-tanks who carried its banner in debates around the world over the last decade.

It is also significant that the South Korean ambassador is here for it is his country that will host next November's summit, the first Asian country to do so, in what is a major step forward for the world's new steering committee.

Finally it is more than appropriate that the city of Toronto be the gathering place for the Canadian discussion.

The original G20 came into being as a result of the Asian banking crisis in the late '90s. It rose to the leaders' ambit a decade later because of another banking crisis this time in the United States and Europe. Thus where better to hold the next summit than here in the home of Canada's five largest banks—institutions, which in themselves and in the structure that regulates them have become the models for others to follow.

It is fitting that Toronto is the city of choice for another reason as well. This is one of the world's great multicultural cities. Almost half of its population was born abroad. Every day in Toronto's parks and schools, the world meets and Canada's identity is enriched. As someone said to me the other day: "How often is it that the host city is more diverse than the summit itself?"

It is also fitting, given that this will be the G20's fourth meeting and thus it begins its passage from adolescence to maturity, that today we discuss the measure by which its ongoing success should be judged.

My view is quite straightforward. Clearly there are many issues on the table. Canada will raise the issue of maternal and children's health at the G8, but for it to truly connect globally, it will have to be endorsed at the wider G20 meeting as well.

Others will point out that the question of global financial imbalances and the threat of contagion arising from the possibility of a sovereign debt default must be responded to and of course they must be. In short now and over the years to come the issues the G20 will have to confront will be as varied as there are pebbles on the beach.

But whether they will be successfully dealt with will depend on one thing. Bargaining will inevitably begin on the basis of the self-interest of nations. But in the end, success will only be achieved if the member countries grasp one truth—and that is in today's highly interdependent world the furtherance of a country's self-interest will depend more and more on the degree to which it furthers the global interest.

Therefore what is the measure by which the G20 should be judged? The answer for those of us who pushed for its creation is the degree to which it improves the way globalization works and it is to this that I would address my remarks today.

To illustrate this, what I'd like to do is to highlight three issues that are in the forefront of global concern as Canada and Korea set the agenda for this year's meetings. They are global poverty, climate change and the global banking crisis.

First, global poverty: it has many faces. But certainly one of the most incomprehensible in the modern age is the lack of food security—malnutrition and famine. Here the unmistakable warning sign, the canary in the coal mine as it were, occurred two years ago when the price of the world's staples tripled and poor countries' budgets

were decimated as they struggled to import food and civil unrest spread throughout the developing world.

Nowhere was the threat more serious than in Africa. Yet, except for a slight bow in its direction, the G20 has virtually ignored the continent and the issue of food security. Africa's leaders have much to answer for, but clearly the G20 must respond much more urgently than it has if it is to live up to the hopes so many have vested in it.

Next. On most questions, what is important are the signals the G20 sends to the world's negotiating tables. In the case of climate change, this meant Copenhagen where suffice it to say the wrong signals were clearly sent.

Of course, the prime responsibility for carbon dioxide emissions lies with North America and Europe. But this does not mean that all of the G20 members, as their emissions increase, do not have a responsibility to Bangladesh, the Philippines, Central America and Africa, regions of the world that are virtually innocent of the causes of climate change and yet whose poor will bear the greatest cost in terms of creeping deserts, flooding and famine.

The next climate-change meeting will be held in Mexico next November-December. However before then, there will be the two G20 summits. It is crucial therefore that rather than a last-minute confrontation between the U.S., China and a few others as in Denmark, that the G20 in June send out the proper signals now so that the climate-change meeting has a chance to succeed.

The world's new steering committee came into being because the world has changed. Its members are members because they have power and position, but they also have responsibilities, responsibilities they must live up to. In short, G-20 multilateralism must mean more than a camouflaged concern only for one's national interests.

This is true in the case of global poverty. It is true in the case of climate change and it is every bit as true in the case of the next issue.

The fact is, despite all of our talk about globalization over the last 25 years, today's financial crisis shows just how unprepared the world's governments were and still are when faced with a global economy whose problems lie beyond the scope of purely national solutions.

This was not simply another economic downturn. It was one that mutated into a perfect storm because at its core was a banking crisis of unprecedented global reach and we cannot afford another one. To put it starkly, the great recession of 2008–9 has done its damage and indeed too many countries, of which Greece is only one, are now having to confront decimated balance sheets and none of them can afford to engage in their own deficit fight only to have it all unravel because of another global banking upheaval.

The great strength of the free market is its ability to innovate; its great weakness is the tendency every so often to take that innovation a bridge too far. Nowhere is that weakness more damaging than when it appears in the banking system, a system that depends almost entirely on the trust we repose in it.

That is why the moral hazard posed by institutions that violate that trust will eventually eat away at the very foundations of the free market, and that is why we must develop a protocol on how failing banks can be unwound without bringing down the whole global system. It is also why I agree with the Governor of the Bank of England who said: "If a bank is too big to fail, it is too big."

This leads me to the third test I would cite as we judge the success of the G20: the need to remind global bankers of the principles of banking.

That is to say, while we must strengthen national regulation, we must recognize as well that it alone cannot deal with the gaps in the global financial system. Furthermore we must accept that putting global principles and standards in place is but the first step, for these are going to have to be continuously reviewed by an international

body whose only goal is the protection against systemic risk.

And finally the new standards are going to be mandatory and fully enforced. Why? Because in a world of seamless capital markets there are no borders, and if those are the rules the bankers play by, then those must be the rules the referees referee by as well.

When the memories of the current banking crisis begin to fade, the cities of London and New York will not be alone in seeking to lower if not to gut regulatory constraints to attract the world's financiers. Already Paris, Frankfurt, Singapore and Tokyo are gearing up for the next round.

And of course, this is but the tip of the iceberg. Wait until Hong Kong and Shanghai combine to challenge the incumbents. Then the battle will really be on!

The fact is, given the difficulty major U.S. and European bankers now appear to have remembering how remorseful they were but a couple of months ago, it should be pretty clear that a voluntary process of global co-ordination will lead nowhere. In short if there is anyone who thinks that the voluntary subscription to global standards will be sufficient, then I'd like to introduce them to the tooth fairy!

So where do things stand today? At the present time the G20 has not come down on the single most important issue it has to deal with—the core equity, liquidity and leverage standards for G20 banks themselves.

The issue here is pretty straightforward. In most cases banks insist that you put up a certain amount of equity or that you have an ascertainable net worth, when you borrow from them. No argument there!

The question is, why then do some banks think they should be the exception to that same rule when the shoe is on the other foot, that is to say when they borrow? The answer is there shouldn't be any exceptions but there were! And therein lies the root cause of today's problem.

Why are core standards so essential for financial institutions? It is because while sound regulation is crucial, it is no panacea. In fact, nothing is! That is why what financial institutions need first and foremost is a solid foundation—an equity base that will allow for human lapse to the maximum extent possible, one that can withstand the ravages of greed or the unexpected.

In short, bankers, their shareholders and creditors must understand that a system, whereby financial institutions take excessive risks and earn excessive profits but the world pays the bill for failure, is no longer on.

Given the ever-growing differences in approach both within and between the United States and Europe on the host of regulatory issues before them, it is clear that the most urgent need is for the G20 to confirm at its June meeting, that at the latest the core equity and leverage standards will be in place by the early fall, that is to say well before Korea, and that the other differences will be worked out in the immediate months (not years) that follow.

In short, the time for the G20 to draw the line in the sand is now. But while the right words are being spoken, it is clear from the ongoing delays and incessant debates that not all of the G20 members or their banks are prepared to carry through. What the recalcitrant should remember however is that the G20 is a global steering committee. It is not a small club of the self-interested, and the question to ask is not how do you keep New York, London or German bankers happy, it's how do you keep the global economy healthy?

So, where does this leave us?

I have touched on the litmus test for the G20 with reference to three examples. In each case, the jury remains out but the grounds for optimism are there. In each case however as well, there are two constants that cannot be ignored if the G20 is to succeed.

The first constant is the tradeoff between generations. This of course is most evident when addressing climate change. It should be every bit as evident when dealing with global poverty.

In 2050, Africa will have a population of two billion, 500 million more than either China or India at that time. Hopefully that massive percentage of young people by mid-century will provide the world with an engine of growth when the global economy needs it, comparable to the shot of adrenalin China is providing today.

However if in 2050, Africa's young are unemployed and rootless, millions desperate, with no hope but plenty of anger, then those young people will turn, as would so many in their circumstances, what could be the success story of the 21st century, into an unstoppable source of global instability, with all the misery that entails. The choice is ours. The consequences of that choice however will be borne by our grandchildren.

The second constant, which is crucial to the success of the G20, is whether the leaders of the member countries show a capacity to rise above the political comfort of narrow nationalism.

Quite simply, coming to grips with what it takes to make globalization work requires a global consensus that cannot be squared any longer with the traditional exercise of sovereignty.

To illustrate this, let me return to the issue of bank turmoil and the continuing discord between the U.K., Germany and France, as to what to do about it, not to mention the parallel fractures within the U.S. Congress, all of which has taken place as if the rest of the world didn't exist.

The current definition of sovereignty was established in 1648 and it was all about rights and the parochialism of rigid borders. In case no one is looking, the world has changed since then. Surely if we have learned one thing from the financial crisis, it is that the definition of sover-

eignty must now include sovereign duties and the responsibility of nations to each other.

Clearly, if the G20 is to do its job which in this case is to achieve the global co-ordination of national bank regulation, it is here in the evolution of the duties of sovereignty that the battle lines will be drawn, for with the designation of the G20 as the world's new steering committee, the debate is no longer what will replace the G8, it is will the G20 be given the responsibility to make globalization work, but without the tools to do the job.

To those who argue as some still do that all of this is an attack on their sovereignty let me simply ask where they have been for the last couple of years. We are not talking here about infringing sovereignty; we're talking about what is necessary to protect sovereignty in the 21st century.

For instance, when the U.S. and European financial players created toxic assets and sold them around the world to everyone's detriment, was that not an infringement on the rest of the world's sovereignty? Is today's global recession itself not partially the result of the infringement on the sovereignty of every country that has been affected by the failure of the European and American banking systems to exercise minimum standards of prudence?

And this is only the beginning. What has happened in Europe with the massive bailout of its illiquid if not insolvent states is but an example of how the unthinkable can become real. Their financial markets have already stripped away much of sovereignty's economic veneer. If people doubt that, let them go to Greece, Spain or Portugal today. More and more the issue is are the markets going to dictate a country's economic and social policy or are national governments going to recognize their duty to their own citizens to adhere to international norms, and to work with other countries, so that the fear

of contagion ceases to be the sword of Damocles hanging over an increasingly integrated global system?

In the same vein, the discussion of sovereign duties becomes even more important when we look at how quickly the global landscape continues to change. What the European and American governments must come to grips with as they continue to argue among themselves seemingly oblivious to the rest of the world is the reality that in the years to come, when the Chinese and Indian economies have penetrated global markets even further and they stumble as all economies do, there will be no stimulus package big enough to rescue us; certainly not if we in the West hide behind outdated truisms or quick fixes now to frustrate the longer-term resolution of global issues while we have the opportunity to do so.

In the same context by the way, the Europeans might want to re-examine their conflicting proposals for a surtax on everyone's banks. Quite simply, it flies in the face of today's global reality.

The two biggest banks in the world are Chinese. They are both state-controlled. The same is true of the fastest growing banks in India, Brazil and the other emerging economies.

Taxing a state-owned bank is the same as transferring your small change from one pocket to another. Thus the only institutions that would be truly touched by the tax would be the large investor-owned banks of Europe and North America that will eventually be competing with those same state-owned banks. Given this, you have to ask what will it take before the debt-ridden nations of the West realize how much the world has changed, or just how much the balance of economic power in the world has shifted?

In any event, it is time for the debate on financial institution safety to be settled. It has gone on much too long.

The question revolves around the management of risk and the answer is evident. It lies in the establishment

globally of the principles of sound regulation and greater transparency, principles that will only succeed if nations recognize their duties to each other.

This is why the G20's time has come and it is also why Canada's role as host of this June's meeting is so critical. The host of a summit is in a powerful position for if it chooses it can influence much of the agenda.

We will not host another one for a generation. Let us not miss the opportunity before us.

Few countries have our fiscal credibility. Few countries have our reputation for sound regulation and high banking standards. It is our officials who have led the debate ever since the Asian crisis.

Therefore irritating as the bank tax proposals may be for instance, Canada's representatives should not be diverted into spending all their public time speaking about what the G20 must not do. They should speak unequivocally and with force about what it must do!

This is true in terms of bank regulation, but it is also true in terms of climate change, especially when the President of Mexico whose country is trying to rekindle the momentum lost after Copenhagen came to Canada only a week ago and asked us to show the requisite leadership. It is true as well in terms of food security in a world where in the last few years the number of people who go to bed hungry has increased by over 200 million, most of them children. It is because of them that we must never forget that the members of the G20 are not there to speak only for themselves but also for the 173 countries that are NOT at the G20 table.

In summary then, let me conclude with the reminder that the future of globalization is the great issue of our time. The issues we have discussed here are all manifestations of the need to make it work better. Even more to the point, how the G20 deals with them will provide an indication of how it will deal across the board with the interdependence of states in the future.

The question the G20 has to answer is now that there will be not one or two but for the first time in our lives, five or six giant economies at the table, what is it we must do to ensure that this works to everyone's benefit?

This is why it is fortuitous that the G20 meetings this year are in Canada and Korea—two wealthy countries, but neither a superpower. Neither with a domestic market large enough to fall back on. Both dependent on a world that works.

What both must do as the agenda setters of their respective summits is to use their history, their experience to challenge the larger economies, to bring them to the realization that they too are dependent on global solutions to national problems, that the line between the national interest and the global interest is getting grayer and grayer, that sovereignty is no longer only a question of rights but of duties as well.

The opportunity is there for Canada and Korea to show the way.

Let us hope they do!

Thank you!

The appreciation of the meeting was expressed by John Capobianco, Senior Vice-President, Public Affairs, Edelman Canada, and President, The Canadian Club of Toronto.



June 3, 2010

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

Michael Ignatieff

Leader of the Liberal Party of Canada and Leader of
the Official Opposition in Canada

RENEWING CANADIAN DEMOCRACY

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Nick Chambers, Partner, Benchmark Performance Inc., and Director, The Canadian Club of Toronto; Kamala-Jean Gopie, Former Governor, University of Toronto, and Leader, African-Canadian and Caribbean Communities; George Roter, Co-Founder and Co-CEO, Engineers without Borders; Allen O'Dette, Director, External Relations (Ontario) and National Private Markets, GlaxoSmithKline Inc., and Director, The Canadian Club of Toronto; Jennifer Jeffs, President, Canadian International Council; Pradeep Sood, Chair, Ontario Chamber of Commerce; Dr. Julie Nguyen, Co-Founder, Canada-Vietnam Chamber of Commerce, and Professor, University of Toronto—Scarborough; John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleishman-Hillard Canada, and President, The Canadian Club of Toronto; Anetta Jewell, Partner, Great Lakes Brewing Co., and Director, The Empire Club of Canada; Margaret Yang, Vice-President, Chinese Professionals Association of Canada, and Financial Advisor and Limited Partner, Edward Jones; Steven Del Duca, Director of Public Affairs, The Carpenters Union; Asha Luthra, President, Indo Canada

Introduction by Alfred Apps

Michael Ignatieff

The entire city was in flames. German bombers were hitting the docks. The city was aflame from one end of the skyline to the other. And the old man turned to the younger man and said, "This will be the end of civilization as we know it; there has to be a better way." It was said in a kind of whisper to the young man next to him. The man who said those words was Pearson, and the man who heard those words, the young foreign-service officer, was my dad.

Why was Canada in London in 1940? Because we believed in freedom, Canadian freedom, Canadian democracy. We were standing up for the freedom and democracy of others. Sometimes when there's no alternative, when there's nothing else that can be done, when all resources have been exhausted, we have to fight. Mike Pearson was a peacemaker and a peace builder, but he was no pacifist and that's at the core of the liberal internationalist vision—a willingness to stand up and fight if necessary for the freedom of others.

A second strategic part of the Pearson vision was that development, helping poor nations, is not social work; it's not charity. It is a strategic necessity for this country because Canada is not safe if billions of human beings go to bed hungry, angry, vengeful and resentful. Mike Pearson understood that in his bones and we must understand that in our bones. We are not safe here, there is no safety here, when there is injustice and hatred and violence anywhere else, and that is why investment in development is a strategic priority, not simply a moral priority for our country.

And the third element of Pearson's vision, which you see when he stands in front of that night sky with my father, is a passionate commitment to peace, a passionate recoil from war as the ultimate solution to human conflict, a passionate commitment to investing in conflict prevention.

One of my proudest moments as a Canadian citizen was serving on a great international commission on the responsibility to protect. At the core of that idea, which was initiated by Minister Axworthy with the support of the Canadian government, was the idea that Canada's vocation was to stop conflicts before they started, to work to give countries the capacities to solve their differences peacefully.

We are a bilingual country. We are a country with the greatest experience in the world—the experience of diversity, and establishing tolerance between communities that are divided by religion or by race or by history. We are the best example in the world of the ability to live together, a lesson we can teach the rest of the world. That is at the very heart of an international vision, a vision presented by the Liberal Party under Mike Pearson, Jean Chretien, Pierre Elliott Trudeau and Paul Martin and all the others and under my leadership as well.

The challenge we face now is how to adapt that passionate liberal internationalism to a world that Pearson and my father never lived to see, a world in which China and India and Brazil are not only the mounting economic powers of the world, but will dominate the geo-strategic landscape of the world in the 21st century. How can we adapt to a world where global communication or hatred in the Hindu Kush in the remotest recesses of Pakistan can visit devastation on Canadians half a world away? How can we create a liberal internationalism that also conjures up the extraordinary strengths of this country that have changed so much for the better in my lifetime?

When you look around, you see the strength of our country. Twenty per cent of our population was born outside the country, and two million Canadians, of which I was a proud member, are living and working overseas at any given time. We are already the most international society in the world and the trend line is up.

Now the question, the challenge, is how federal leadership can put together the networks of influence and implication that Canada already has in the world and leverage them into partnerships and relationships with other states so that we're not less than the sum of our parts on the world stage but more. That's the fundamental challenge. And we have to seize it with courage.

Today I'm pleased to announce that we're releasing a document called "Canada in the World," a global network strategy. I don't know if you can get your copy on the way out, but I'm sure that you can download it from our Web site. It gives you a strategic vision of Canada's future, not just this policy and that policy, but a global strategic vision of how we want to lead in the world. We must have a global strategic vision of our relationship with India and China. This is crucial. From one little trade agreement and one bilateral agreement and one little bit of progress after the other, we have to engage the Chinese and determine where we want the relationship to go over a decade. How can we leverage all the advantages that we have?

We have one of the best education systems in the world and there is a huge demand for the educational services of Canada in China. In fact, educational services and financial services will be much more important to our relationship with China than natural resources. Do we want to be the country that is the giver of water for the Chinese economic miracle? I don't think so. We want to be the strategic partner over a whole range of relationships. The purpose of Canadian leadership must be to create that network of involvement, which multiplies at every

level the people-to-people engagement with these countries that truly produces the Canadian advantage.

We need to do that with India. We need to do that with China. We need to do that with Brazil.

Remember it took four years for Harper to get to China, but Dalton McGuinty was already there and Jean Charest was already there, and Premier Campbell was already there and Premier Doer was already there. What they were saying was where was team Canada, where was the leadership that pulls us all together so we're not less than the sum of our parts but more than the sum of our parts? The challenge of getting a global network agreement with these great rising powers is to have coherence, a vision and co-ordination in the foreign policy of these great countries.

The same thing can be said in terms of our relationship with the United States. It's delightful to have the consul of our best neighbour, our best friend, and one of our longest allies, but we have to, as a country, speak for something that's not been spoken for—the economic and geo-strategic interest of the North American continent. We have a border between the United States and Canada and between Mexico and the United States at a time when competitors are tearing the borders down. Many of you may have gone through Europe and seen the ways in which borders have vanished between countries. Yet here we have a barrier, which reduces competitiveness and reduces the capacity for one of the greatest economic engines in the world—the North American economy.

Let's work together. Let's leverage the million Canadians who work and live in the United States as I once proudly did a few years ago. Let us leverage those relationships; they're crucial. We need to be in every statehouse, we need to be in every city government, we need to be in Congress, and we need to be with the chambers of commerce to create the political tide to create a

common North American economy that is as efficient and as productive and as just as our world's competitors.

Let me take a third area of engagement, which is the Arctic. The Stephen Harper approach to this is it's all sovereignty, it's all gunboats, it's all aerial surveillance. Sovereignty is important, but when that oil spill in the Beaufort Sea starts flowing out, the oil doesn't care about sovereignty, it doesn't care about borders, and it's going to pollute everything and destroy the heritage we want to hand on to our children and grandchildren. This is where we do need a network and framework agreement to manage environmental development and environmental protection among all the Arctic nations. Sovereignty won't cut it. We can defend our sovereignty, but unless we as Canadians lead the development of framework agreements to protect the Arctic, protect the environment, manage in an orderly manner the development of the vast petro-chemical resources below the ocean surface and find an international framework agreement that manages the Arctic, we risk handing our children an environmental nightmare.

It is time for Canada to act now in concert with other nations to get a framework agreement in the Arctic, to protect this treasure. It's not just a piece of our sovereignty. It's the global refrigeration system.

You are in politics or involved in politics because you want to hand off the world in better shape than you found it. You want to hand it off to your children in a way that you can look at yourself in the mirror and say, "We did our best." Well we've got to do our best in the Arctic. This is a case where diplomacy is so important. It involves all of our partnerships in a network agreement that protects this vital heritage for future generations.

Let me add a fourth element. We need to have a global vision recommitting to Africa. Remember what I said a couple of minutes ago. Mike Pearson's vision of develop-

ment is that it isn't social work. It isn't just exercising our good conscience.

This month the billionth African will arrive on this planet. A billion Africans, think about it. Our government, this conservative government, has walked away from Africa as if it doesn't exist. This is folly. The Chinese are pouring into Africa. Other countries are pouring into Africa, but what Africa needs is what Canada has—experience in managing and creating political order that can provide justice for its citizens. Tolerance, a country that can live together, is what must bring us to work with Africans.

We need to grasp the strategic importance of investing in Africa. Not in all of Africa, let's be tough here. There may be 52 nations in Africa and only 10 of them are serving their people honestly and well, but with those countries we need to form a partnership that endures. We are with you, Ghana. We are with you, Kenya. We will be with you, South Africa, until you have fully joined the world of stable, dynamic nations. This is the kind of vision we need to sustain a network engagement with Africa, that understands the crucial strategic importance of creating a world in which we do not have a billion people going to bed at night hungry and miserable and discontented and angry, with the economic order and the social order that we benefit from here in this room. It just doesn't make sense. We've got to understand that. We've got to reach out to our fellow citizens and persuade them of that commitment.

Let's remember those words in our constitution—peace, order and good government. Let's remember that the vocation that Canada has in the world is to spread peace, order and good government wherever we can in enduring and stable partnerships with people that we can trust and count on and who will remember us forever if we stand with them as we stood with other peoples in the past.

Let's focus above all on the issue of peace. This is the value that was so strongly expressed on that rooftop in London by Pearson and my father. Peace in the Middle East. There is no conflict in the world that is more dangerous to geopolitical stability and geopolitical concord than the struggle in the Middle East. Canada needs to say as clearly as we can, that we must have two states for two peoples, and we must have it now.

The events of the last two weeks have not changed my party's view of this conflict. Not changed it one iota. They have simply doubled the imperative of proximity talks, the imperative of no longer creating new and horrible facts on the ground, the imperative of getting humanitarian aid to Gaza, the imperative of getting construction materials, and the imperative of ending the attacks against the state of Israel. There is no conflict in our country, in Canada. Because of the Middle East conflict, we must stand as Canadians and our government must stand and say, "It's time for peace; it is long past time for peace. Get back to the table; we'll do anything that we can to help you."

Let's not underestimate what Canada can do. Right now there are Canadians working with the authority in Ramallah to improve security, to allow the Israeli government to take down checkpoints, and to allow economic activity to grow. The seeds of peace are laid down every day by this practical, hard-working, unobtrusive Canadian work. This is the kind of work that Canada must do for peace. This is the kind of work that we can do for peace.

Let's also remember what our goal in Afghanistan is. However strange it may seem, our goal in Afghanistan is peace too. This is a country I know well. I began to visit it first in 1997 and I've seen it ravaged by civil war. I've seen the ethnic hatreds and the hatreds that left millions dead. It's a tormented country and it has become a haven for terror. We went to Afghanistan for good reason—to protect the national security of Canada. One hundred and

forty-seven brave Canadians didn't come home. This is on our conscience; this is in our hearts.

Harper behaves as if the Afghan mission never happened. It happened on his watch. He's walking away from it as if it has never occurred. There's something about this that doesn't seem right to Canadians. We have to have an honest national discussion about where we go from here. We went in with an alliance and we went in to help an Afghan government. Canadians are serious people. If you ask us to do something serious and difficult, we'll do it, provided we can understand what it is we're trying to achieve.

The problem in my view has been the futility of the mission. What are we achieving? What progress are we making? I believe that the mission should end and it should end completely in 2011. The whole purpose of our engagement in Afghanistan was to enable that country to stand on its feet and be self-sufficient. Are Canadians to walk away with a job half done? I think not. However difficult it is to say so, I think that there is more work to be done. A training mission focused on raising the capability of the officer cadre in Afghanistan is a mission that we can do. It does not involve combat. Remember peace, order and good government. We've got to build the capacity of these people so they can defend themselves and we can come home with honour, and a sense of a job well done, a difficult job well done.

We are open as a party to a national discussion about this, a serious, thoughtful-to-the-roots national discussion about what we can do. This is what Parliament should do. This is what Canadians should do. You can't have a foreign policy unless it's based on a national conversation. Harper wants to stop that conversation. I want to start it.

Let me come to a conclusion here. One of the key parts of the Pearsonian tradition is the idea of balance in our foreign policy—balance between the defence component, the military component, balance with the development

component, and balance with the diplomatic component. A great foreign policy is balanced. It's calibrated. In the last few years I think the balance has tipped so far towards defence that it's as if the only foreign policy we have is at the tip of a spear and the only foreign policy we have is in Afghanistan.

I've tried to lay out a range of commitments that Canada has to make to meet the challenge of the 21st century, but that requires balance—making sure that we reinvest in development instead of cutting development cold which is what government is going to do. I think that's a strategic mistake. As I said to you, this is not a problem about our conscience. It's a problem about our strategic interest. We must understand it's in the national interest of our country so we need to rebalance there.

We can't run a network of engagement with Canadians overseas if we cut the foreign service. These are the people who lead the team. These are the people who co-ordinate Canadian activity. If we don't have these people, we don't have the balance and we don't have the capability and we don't have the network. I know. I'm a son of a foreign officer and, by God, I'm proud of this tradition. This government has let it go to waste.

Let's get balance in the allocation of our resources. Let's get balance in our commitments. Let's have a foreign policy that doesn't just simply consist of one country. Let's reengage the world and let's see the world as those two men on that rooftop saw—a world in which we commit to development as a strategic development and we commit to defend the freedom and democracy of others, and understand that our foreign policy is not an adjunct for winning, but part of enduring national interest that will endure throughout governments, in future governments and past governments. Those enduring interests must be seized, must be articulated and must be expressed by the Canadian leadership. If we are true to that vision we can be true to those men who stood on that rooftop overlook-

ing a city on fire and said to themselves, "There has to be a better way, a Canadian way."

There will be a better way. Thank you.

The appreciation of the meeting was expressed by John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleishman-Hillard Canada, and President, The Canadian Club of Toronto.



Jocelyn Badovinac, Honorary Director, The Empire Club of Canada, Michael Ignatieff, Leader of the Liberal Party of Canada and The Official Opposition Party in Canada, and Ed Badovinac, Director, The Empire Club Foundation.



June 9, 2010

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

David Jacobson

U.S. Ambassador to Canada

ECONOMIC RECOVERY: NEW BEGINNINGS AND A PATH FORWARD

Chairman: **John Capobianco**

President, The Canadian Club of Toronto

Head Table Guests

Dr. Paul Genest, Director, The Canadian Club of Toronto, and Deputy Minister and Associate Secretary of Cabinet Office, Intergovernmental Affairs, Ontario; Robert Bathgate, President, American Chamber of Commerce in Canada; Kevin Johnson, Consul General for the United States of America; Ronald Lloyd, Chairman and CEO, Credit Suisse Canada; Alfred Apps, President, the Empire Club of Canada, and Partner, Fasken Martineau; Tim Hodgson, Director, The Empire Club of Canada, and CEO, Goldman Sachs Canada; Len Crispino, President and CEO, Ontario Chamber of Commerce; and Thomas Kloet, CEO, TMX Group.

Introduction by John Capobianco

David Jacobson

I really do want to thank you for inviting me here today and it's good to see so many of my friends here in the

room. I very much appreciate the fact that you have scheduled this as a lunch rather than a dinner. I am planning on keeping my evening free tonight because, as you heard, I am from Chicago. As you know, my Blackhawks are playing tonight. They're ahead 3-2 in the Stanley Cup final. I know that people from Toronto lament the fact that they haven't won a Stanley Cup since 1967. That is like yesterday to those of us from Chicago. I want to put that in a little bit of perspective for you. The last time that the Blackhawks won the Stanley Cup, my boss, the President of the United States, was not yet born. It was going to be four months until he was born. The players didn't wear helmets, the goalies didn't wear masks, and I think the puck was still made out of wood. I am quite confident that before I come back to Toronto again, we are going to change all that and you guys are going to hold the record for the longest period without a cup.

I would like to talk to you today about the state of the American economy and where I think it's going. The reason I am doing that is I believe that that is a topic of enormous significance to the Canadian people and particularly here in Toronto given the extraordinary interrelationship and integration of our two economies. A hero of mine, John Kennedy, once said in a speech to your Parliament, that it's geography that made us neighbours, it's history that made us friends, but it's economics that have made us partners.

I want to begin by inviting you back a little ways. The President of the United States has just been sworn in. Unemployment is extraordinarily high. The national debt is rising fast; it's rising too fast. Families are struggling to keep their homes and the President stands before the Congress and he tells the American people that the economy is in the worst mess that it's been in since the Depression. He says that swift action is absolutely required. He calls it a potential economic calamity. Then the speech ends and you turn the channel on the TV and

you watch another program, maybe "Little House on the Prairie" or "Barney Miller." The reason for that is that the President who gave that speech wasn't Barack Obama. It was Ronald Reagan. It was in 1981.

I raise this because most often when we think that we're living in extraordinary economic times, unprecedented economic times, history taps us on the shoulder and reminds us that there really is a precedent for what we're going through. My goal is not to try to downplay the current economic challenges because they are legion, but what I want to do is emphasize the long history that we have of resilience even under trying circumstances. It has been bad before, but even when it's been bad, over the last couple of hundred years, people have not done very well by betting against the United States of America.

In the years and in the decades that followed President Reagan's speech in 1981, America did recover and then some. We've had very strong growth. We had low unemployment. In the 1990s we had the longest un-interrupted economic expansion in our history. As was true for President Reagan, in Barack Obama's first year in office, the most pressing issue that he had to face was how he was going to confront the economic crisis. When he came into office, the story was clearly being told in macroeconomic numbers, employment data, foreclosure tallies, GDP declines, but I think more importantly to him and certainly to me, it was being felt in a very personal way, in individual households, in businesses, among entrepreneurs and workers and among mothers and fathers. It was quite obvious that a recession closes doors and it narrows options and it limits opportunities for so, so many people.

The United States economy, when President Obama came into office, was declining hard and it was declining fast. It was declining to levels that haven't been seen in decades. In 2008 alone, the net worth of U.S. households fell by 18 per cent. That is \$11 trillion. It fell by \$11 trillion.

That is the GDP approximately of the United States for an entire year.

This wasn't your grandfather's Depression, not by a long shot, but it also wasn't exactly your father's recession. It required that the President and the Congress pursue measures to rescue financial institutions and to invest almost a trillion dollars in a stimulus package.

These measures were opposed and opposed strongly by some, but make no mistake about it, first they arrested and now ultimately have started to reverse the decline that we felt a year or so ago.

There's an American author, Robert Penn Warren, who wrote a book called "All the King's Men." In it he said that the world is like an enormous spider web and if you touch it, however lightly at any point, the vibrations ripple to the remotest perimeter. I think that that is a very useful analogy to think of in terms of how the modern economy works and it helps to explain how decisions that are made in one or two sectors in one country can reverberate across the whole economy in that country and then the whole country and ultimately the whole world.

I think that it also serves to illustrate the recovery and how it's going to work, and that it begins small on streets and on farms and spreads to offices and factories and ripples onward and upward. Because American leaders made difficult choices about a year ago, our economy that was shrinking before is now expanding. Our economy grew at an annualized rate of 3.2 per cent in the first quarter of this year; that is three straight quarters of growth. Consumer spending rose by 3.6 per cent, which is very important in my country because about 70 per cent of our economy is based on consumer spending. Business inventories rose. Probably a lot of people in this room understand that that is a very strong sign that businesses believe that recovery is going to last out into the future. The President has described a lot of these economic numbers as important milestones in the recovery, but he

realizes and I think we all realize that there is a long road that's going to stretch out before us. We've got a long way to go. We've still got a number of obstacles to overcome before we rectify this situation. I want to touch on at least three of them here today.

First of all, I think, and I think this has particular application here in Toronto, which is such a financial centre, that most Americans and probably most Canadians would agree that we need to take steps to ensure that the kind of crisis that happened a year or so ago doesn't happen again. Recessions are always going to be part of the economic cycle. That's inevitable, but the financial crisis that gripped Wall Street was anything but typical. In fact, we now find ourselves in the United States with Americans trying to work their way out of the economic crisis that we're in by buying some of the 5,000 books that have been written about what happened in the economic crisis.

The crisis on Wall Street has prompted the President to move forward with a package of reforms and regulation to help govern how big banks and other financial institutions operate and to protect Americans from another failure of responsibility. As he said, "A free market was never meant to be a free license to take whatever you can get and however you can get it."

The second thing I want to talk about is that the President has made it clear about the need to reduce the deficit over the long term. Short-term stimulus was required in the United States just as it was required in Canada and many other places around the world, but if we want to continue to compete in the 21st century, we can't borrow too much, we can't put off tough decisions and then expect to succeed.

We can argue about exactly how much stimulus is good and exactly how much deficit is tolerable, but I think we all have to understand that there's a balance that needs to be struck there. I can assure you that the

President understands that there is a balance and there's a balance that needs to be struck.

Third and finally is the issue of unacceptably high unemployment. An economy that was losing jobs a year ago has indeed begun to replace those jobs today, but we have a very long way to go in that regard. It's great when you can read good numbers in an economic report, but if you don't have a job, those numbers aren't going to do much to feed your family. We need to take action to help bolster our economy, to keep America strong, and to create good, new American jobs.

You can see a long-term strategy in a number of things that the President has done, particularly in areas of energy, in health care, and in education. We have made, in the last year, enormous investments in clean energy in my country. We've done that not just to reduce our reliance on foreign oil, but also so that we can become a leader in energy solutions and be able to create some of those green jobs that are going to drive the economy in the future. We've invested in health care in order to put a reign on soaring costs that became a threat to our economy and to productivity. In the stimulus bill, there was an enormous amount of money that was dedicated to education in order to give Americans, young and old, the skills and the knowledge that they require to compete in a very competitive world.

These initiatives were critical, but the fact is that their true impact is not today, it's some way off. And so, what we have to do is take steps to take action now. One important example of that is the President's effort to stimulate our economy through exports. By encouraging Americans to create and to produce goods and services that other nations want to buy, we're going to create jobs in the United States. The President calls it his National Export Initiative. I want to discuss it for a minute in detail because I think it is such an important part of the

President's plan and because I think it has such important implications in Canada.

President Eisenhower once said that trade barriers, though intended to protect a country's economy, often shackle its prosperity. So it's important, very important, that the United States keeps its markets open to the rest of the world. It's very important that we resist any effort to try to close those markets. If we close our doors to the world, the world is going to close its doors to us. We understand that. That would be a terrible problem because, and a lot of people oftentimes lose sight of this, the United States is the world's number-one exporter. We also happen to be by quite a bit more the world's number-one importer. We exported more than a trillion dollars' worth of goods in 2008, which computes to more than six million jobs. The math here is pretty simple. If we increase our exports, we increase the number of jobs we've got, and by extension we increase the overall economy.

The National Export Initiative has the goal of doubling U.S. exports over the next five years. Unfortunately, I don't think we're going to be able to rely on iPads for all of that. Our big companies in the United States are pretty good at exporting. They know how to do it. They have people who've done it and they really have got very good at it. Therefore, the focus of the President's initiative is on smaller and mid-sized companies and helping them to provide access to a toolkit of services, including financing and counselling so that they can get into the export market. Although I'm not an entrepreneur, I do believe that Canada is the cornerstone of that effort. It is, as you all know, already our largest export market. Access is already established through NAFTA. There's a familiar business and consumer culture and there is a real history of commerce between our two countries that probably everybody in this room understands, not just in the almost \$2 billion a day in goods that cross our border, but

in even more entrenched and more visible ways. Our corporations are here in your downtown. Our retail giants are in your malls. Your banks are on the streets of many of our cities. Your Tim Horton franchises have introduced us to the strange wonders of the dutchie and timbits.

The National Export Initiative comes down to this: doubling our exports over the next five years are going to support millions of good, new American jobs. Now we need to be frank about something. There are challenges in convincing some Americans of the wisdom of open trade, but those are challenges that quite frankly we all face. There are those in my country who support Buy American efforts, just as there are those in your country who resist lowering trade barriers, for example, between your own provinces. The President is working hard to ensure that the benefits of trade relationships are well known. He's helping workers to adapt to the changing world that those trading relationships have brought about. Whether you are the President of the United States or the Prime Minister of Canada or any other world leader, the best way to look out for your own workers is a global economy and to make sure that your workers have got the tools to succeed in that global marketplace.

The nature of the crisis and the form of the response were somewhat different in 2010 than they were when President Reagan was the leader in 1981, but what is consistent between those two situations was the confidence that a new normal was eventually going to be found. In the spring of 1981, President Reagan travelled to Ottawa. He spoke to a joint session of your Parliament and he declared that Americans were uniting as they always had in times of adversity. Their growth would help fuel the steady prosperity of their friends. He was right, Americans did unite. We overcame the 1981 recession, growth returned and the American economic partnership with Canada ultimately became deeper and stronger and more beneficial to both of our countries.

Before I conclude today, I am going to do something that not very many American government officials have ever done. A lot of American government officials quote presidents like Lincoln and Roosevelt and Reagan and Kennedy. I'm going to quote Warren Harding. This may be the first time ever so pay attention. You may be witnessing history. In the summer of 1923, President Harding was on his way home from visiting what he referred to as the Pioneer Americans in Alaska. He stopped off in Vancouver and he gave a speech in Stanley Park. It was almost 90 years ago, but his words about the relationship between the United States and Canada ring true to this day. He said, "So long as each country maintains its independence and each country recognizes its interdependence, those paths cannot fail to be highways to progress and to prosperity."

In the years that followed Harding's words, events proved him right. Our independence has been maintained and our interdependence has grown. Prosperity was the reward for both of us. All the numbers about how much we trade with one another and how closely our economies are linked are just a way of statistically stating what every one of us understands instinctively. We have a real stake in each other's success. For more than 100 years, our two nations have worked in partnership to create a close and a mutually prosperous economic relationship. We trade with each other, we build things together, we invest in one another, we have disputes and we resolve them, we overcome challenges and we emerge stronger. We have come to understand one prevailing truth about the relationship we share and that is that each of us do well when we both do well. I hope that we long continue to do well together.

Thank you very much. Go Blackhawks and I'm looking forward to your questions. Thank you.

Q: I am from the Royal Ontario Museum. Our admissions are up, our revenues are up, but what is down are

visits from American tourists for obvious reasons, the economy being the most, but another one harking back to my political days is the passport issue. We fully respect and understand the security issues and what is being done on both sides of the border, particularly on your side, to facilitate transportation back and forth, visitation back and forth. Are we ever going to go back to the days when someone from Buffalo can spend a day at the ROM without a passport, without a Visa, without a NEXUS card?

A: Yesterday, I gave a speech in Windsor. I told a story, which I'm not going to tell you because I think everyone in Canada has heard it, but the gist of it is that the first time I ever left the United States, I came across the Ambassador Bridge. The point of the story is that no one wishes more than I that we could go back to a world that was like it was when I was seven years old and drove in my parents' Buick across the Ambassador Bridge. To be honest, I don't think that's likely to happen any time soon. I'll never say never, but it's not likely to happen any time soon.

What we have to do is adjust to the world that we're living in. I think we have made enormous adjustments on both sides of the border. We had infrastructure and we had technology much of which predated the Second World War. It was woefully inadequate for both our physical needs now and our mutual security needs. And so what's been done over the last several years is to invest in infrastructure, to invest in technology, to invest in people so that the movement back and forth across the border goes more smoothly.

I also think that there is a false choice between efficiency, on the one hand, and security, on the other hand. If we're smart, we probably can increase our security in both of our countries and we can increase our efficiency.

One of the things that I think we need to do is we need to look at the border not as our first line of defence, and

this is true in either direction, but rather as our last line of defence. I think that one of the ways that we can do that is to take pressure off the border by moving it away from the border. There are a variety of ways that you can do this. There's information sharing; there's intelligence sharing; there are things you can do outside North America. The less you have to do at the border, the easier it is going to be for people who do not wish either of us harm and for safe goods to move back and forth across the border. So I think there are a variety of things we can do.

To go back to your fundamental premise, I do believe that the biggest reason for this is not passports; it's the economy. I don't doubt that there are people who say it's too much trouble, but I don't think that's the big reason for the diminution in people travelling in both directions. I think if you look at the statistics of people going from Minnesota to Chicago, you'll see that's down too. I do think that it's mostly an economic thing. The point you raised and the fundamental point is a fair one and we've got a way to go.

Q: I just had a question regarding what your opinion is on the expanded role from G8 to G20. As you know, Canada will be hosting the G20 Summit here in Toronto at the end of the month. I was wondering if you could identify some of the important agenda items that you think the G20 leaders should definitely address in this coming summit.

A: There are two questions. In terms of the transfer from the G8 to the G20, I think that that is probably inevitable. The G8 was basically started after the Second World War and the world has changed. One of the things I alluded to in my speech was the fact that we have a global, very competitive economy. Countries, India, China, Brazil, Mexico and others, are critical to the world economy and are part of the world economy. It is hard to make economic decisions without those people being at the table. So I think when you're talking about economic

matters that the movement from the G8 to the G20 is inevitable. It has taken place and it will continue to take place.

The G8 at least now still has a role particularly with respect to security questions. These are the countries that are historically more involved in those kinds of decisions, but I do think you're seeing a movement away from the smaller group and toward the larger group. I'm not sure that that's a bad thing.

In terms of the priorities at the G20, and at the G8, you've all read about them. The Prime Minister has made his signature issue maternal health. There have been some flaps about exactly what maternal health includes in your country and mine and in several others, but pretty clearly the notion of family planning is a piece of that. The United States is the world's largest supporter of family planning around the world. We believe and I think that Canadians agree that that is a critical component.

There has been much discussion about co-ordinating our response to the banking and financial crisis, and a good bit of discussion about a tax on banks. It's been called a lot of things, but with the Robin Hood Tax, a tax on financial institutions, if there were a problem, there would be money there and it wouldn't come out of the taxpayers' pockets.

I think that another issue, which will be important and inevitable these days when people from the larger, more industrialized countries and major developing countries get together, is the environment and climate change. I think one of the things that we all saw in Copenhagen last January was that having 180 to 190 countries there is not the optimal situation for resolving much of anything. It's just chaotic and the vast bulk of the contribution for climate change comes from a much smaller group of countries, most of whom are going to be present at the G20. I think you're going to see a lot of that and there will probably be a lot of other things.

I'm also confident that it will not be nearly as disruptive here as all of you fear. I was in Washington for the G20 that was there not too long ago. It was actually about two blocks from the transition office where I was. Honestly, we didn't know it was going on. I hope it will not be anything like people are fearing.

Q: Your speech was very warm and friendly. You can see that you are among friends and of course we have a friend in the U.S. It's very gratifying. On that note, I can see our common problems. In other words, in this challenging world with population growth in other countries, India, China, etc., what should be our direction where realistically we are a minority globally. The world has 6.5 billion people. Collectively the U.S. and Canada, has 300 million plus, 350 million or so with an aging population. The world has been fortunate with American leadership, but I don't think that can be sustained because we're educating people from other countries. The Internet provides information to everybody. How do you see the future relationship between Canada and the U.S.? How can we improve? How can we co-operate, not become the same, a little different, but still recognize as you pointed out that we have common economic problems?

A: That's an easy one. You point out and you address one of the very fundamental issues that we face. Tom Friedman told us and every one of us recognizes every day that the world is changing. But I go back to something that I said in my speech and that is that people have not done very well over a very long period of time in betting against the American people. I would say the same thing about the Canadian people. I guess I am by nature an optimist, but we have a lot of reasons to be optimistic. We have reason to be optimistic because of natural resources. We have reason to be optimistic because of the abilities of our workers and our institutions of higher learning. We have reason to be optimistic because of the transparency of our economies and the

adaptability of our economies, which are enormous advantages, but we also face challenges.

I do think, apropos of what you said, that one of the things that we can do and this benefits both countries, is not merely to have more open trade, which is important. It really is important; it really does make a difference. The trade between the United States and Canada has tripled since NAFTA. Every time that we lower trade barriers, it helps both of us.

I also think that there should be co-operation in other areas such as co-operation in research. There are a variety of cross-border and energy initiatives that are already ongoing and can be expanded. I think that and I talk about this all the time. I was talking about this today at lunch. Being the United States Ambassador to Canada is an unbelievably rich thing for my wife and I because we do share so much. It's so easy for me to come to an event like this and talk to you and, as I always say, I get your jokes. I hope you get mine. But we can relate to one another in a way that is very, very hard for a lot of people around the world. I think that is an enormous advantage that we have.

I think that working together with our friends, and realizing that we are in this together, that when we each do well we both do well is very important.

Q: I am with a global corporation based in Chicago. We too are rooting for the Blackhawks. One of the ways to bring countries even closer together, as you know, is enabling policy and legislation that reflect mutual values and principles. I'm just wondering if you would perhaps comment on the recently introduced copyright legislation in Canada and how we can further improve the mutual interest in intellectual property protection.

A: I don't think it's any secret that Canada is on something called Section 301, the Special Watch List. That is something from the United States Trade Representative's Office that lists the worst offending

countries in the world with respect to protection of intellectual property rights. I do think it does surprise a lot of Canadians (and it's not merely the United States that believes this, but the European Union and others) to be lumped in with countries like China and North Korea and Dubai and some other places that are notorious for some of this stuff. Of the 10 largest sites for pirated software and music and video, five of them are located in Canada. There's a problem here. We've made our views clear on that.

There was a piece of legislation that was introduced last week, which has a number of very important reforms in it. It is very complicated. It's something that we're studying. I'm really not in a position right now to comment on the legislation except to say that the United States and the European Union and others believe that having legislation, state-of-the art, copyright legislation that takes into account changes in technology, which at the moment I don't think Canada has, is something that's important not just for Canada and not just for the United States, but for Canadians and for people around the world.

Q: You spoke very positively about free trade. We know that during the election campaign two years ago, speeches were made both by the now Secretary of State and the President that seemed very much the other way. Specifically, Secretary of State Clinton mentioned that there might be a need to re-examine NAFTA. Can you tell us today, is there any wish within the State Department to re-examine NAFTA and can you give us some idea of how stable we should expect U.S. trade policy to be in the event that the recovery falters?

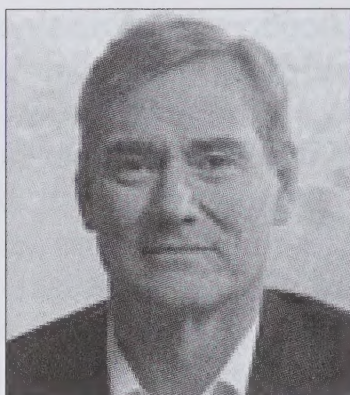
A: First of all, the recovery is not going to falter so I don't have to answer that part. The simple answer is I am unaware of any effort in the United States government, in the White House, in the State Department or anywhere else to try to renegotiate NAFTA. I worry about a lot of

things, but that's not one of them. I don't see that on the horizon. As I said earlier, NAFTA trade has tripled with Canada. It's also tripled with Mexico. I have said repeatedly that NAFTA has been of benefit to Canada. It has been of benefit to Mexico and it has been of benefit to the United States. We do not enter into free trade agreements and we do not lower tariff barriers because we're nice guys. We lower these tariff barriers and we enter into these agreements because they're good for us. They also happen to be good for you.

With a difficult economy, in every place in the world, from time immemorial since there's been international trade, there are desires by some people and populist sentiments to restrict free trade. I think to my knowledge, they always fail. They are not good ideas. This is not something that the President is in favour of. He is a very strong believer in free trade.

When we addressed the Buy America situation a couple of months ago, I got interviewed by some reporter who asked me, "So who won?" My answer was simple. The answer was, "We both won." With respect to trade, when we trade, it is better for you, and it is better for us. The President understands that. I understand that and I hope that will be the policy of this administration at least for the foreseeable future. Thank you.

The appreciation of the meeting was expressed by Alfred Apps, President, the Empire Club of Canada, and Partner, Fasken Martineau.



June 10, 2010

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

Michael McCain

President and CEO, Maple Leaf Foods Inc., and
Director, Centre for Addiction and Mental Health

MENTAL ILLNESS AND ADDICTION: THE COST OF DOING NOTHING

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada; Kelly Meighen, Chair, Centre for Addiction and Mental Health Foundation, and President, T.R. Meighen Foundation of Toronto; Rev. Dr. Andrew Sterling, Senior Minister, Eaton Memorial United Church; Doug Turnbull, Deputy Chairman, Toronto Dominion Securities; Dave Kennedy, National Practice Leader, Transactions and Restructuring, KPMG LLP; Dr. Catherine Zahn, President and CEO, Centre for Addiction and Mental Health; Verity Craig, Managing Director, CV Management, and Director, The Empire Club of Canada; John Hunkin, Former CEO, CIBC, and Director, Centre for Addiction and Mental Health Foundation; Dr. Marie Bountrogianni, President and Executive Director, Royal Ontario Museum Governors; and Peter Doyle, Canadian Managing Partner Audit, KPMG LLP.

Introduction by Alfred Apps

Michael McCain

Good afternoon. It is such a pleasure to be here today. I would like to thank the Empire Club for hosting this important talk.

You might ask why the president of Maple Leaf Foods is here to talk to you about mental health and addictions. Normally, I would be addressing a crowd like this about such things as the food industry, economic policy, possibly food safety or the newest innovation on grocery shelves. But today I'm here to talk to you about something else—something that touches almost every one of us on a deep personal level. I hope, by the end of our time together today, you'll agree that together we can make a real difference in helping to change people's lives. There are two words I hope will resonate with you after today—stigma and courage. I'll circle back to these two thoughts later.

Let's start by looking at the numbers—familiar and comfortable territory for those of us in business. You've probably heard that one in five Canadians—that is one in five of us—will experience a mental illness or addiction in our lifetime. Did you know that mental illness is the number-one cause of workplace disability in Canada? Or that mental illness costs the economy \$51 billion annually? Every single day, 500,000 Canadians are absent from work due to a mental illness or addiction. Picture the entire city of Hamilton off sick today.

By 2020, depression will be the leading cause of disability on the planet.

What do all of these numbers mean? When it comes down to it, they mean that every single person in this room has been, or will be, affected by a mental illness and/or addiction, either through an illness of his own or that of a friend or family member. No one is untouched by these diseases—no one including me.

That is why I am in front of you today. I have been involved in many great causes over the years. I am fortunate enough to have grown up in a family where giving back to our community and our country has always been a part of our lives. I am often asked what leads me to support specific causes—there are thousands of them! In my case, I am motivated by social-justice issues, where there is a genuine opportunity to have an impact, and the work being done is truly world class. I hope to be able to make a real difference that can be seen and felt.

These are the reasons why I am here today speaking about mental health and speaking specifically about the Centre for Addiction and Mental Health—CAMH.

As a businessman, the numbers that I started with paint a grim picture of the impact on our economy and our day-to-day work life. I think it's safe to say that if each and every day, a number of people equal to the population of Hamilton is not showing up for work, we have a productivity problem on our hands. And this doesn't include what we call "presenteeism"—those who are showing up at work only to struggle in silence with their illness.

Like many of you, I spend a lot of time considering "the numbers" in my line of work. I don't have to tell you that we can probably slice these numbers many different ways and analyze for hours on end what mental illness and addiction issues do to our economy—our ability to produce, compete, develop and innovate. If people aren't showing up for work, or if they are but are not healthy, we know that we have a significant issue to address.

The economic costs are certainly a major dimension of this universal and pervasive social challenge. They're a compelling one, and I hate to say it, but in some ways it would make for an easier and more comfortable way for us to talk about mental illness and addiction. But I didn't come here today as a businessperson to lecture on what we can do to improve our economy.

I think we all can agree that the issues of mental illness and addictions are universal and pervasive in our society. So what makes this different from other diseases? Surely there are other diseases that are pervasive, significant, and that touch many of our lives—cancer, heart disease, and diabetes to name a few. But there is a significant difference between mental illness and the rest of these diseases. There remains a deadly barrier to recovery from a mental illness or an addiction. That barrier's not traditional in nature. I'm not talking about a lack of health-care professionals or treatments or a funding shortfall, although all of these are certainly issues that need to be addressed. I am speaking of a grave social injustice—the issue of stigma and discrimination. The first thing I hope you are willing to consider today is the role of stigma in addiction and mental health.

Ladies and gentlemen, perhaps the single biggest reason I decided it was important to speak out on this issue is because still too few of us do. Stigma and discrimination are a direct, concrete, quantifiable impediment to treating these chronic illnesses.

In a 2008 poll, half of Canadians said they would hide a family member's mental illness from their friends or colleagues. Too ashamed to talk about it, Canadians and people right around the globe are more often than not ignoring the issue and suffering in silence.

Only a third of Canadians who actually need care ever receive it. One in three! Can you imagine if only one-third of the people diagnosed with cancer or heart disease or diabetes received the care they needed? We'd be standing out in protest at Queen's Park right now. Opposition parties would be holding our governments to account in droves. There would be a national-health emergency citing declarations of "third-world" health-care delivery. Each and every one of us in this room would be standing up for better and more treatments, increased funding, and investment in research to find cures.

Stigma prevents people from seeking help and it prevents society from taking responsibility for providing support and service.

When my family and I made our first donation to the Centre for Addiction and Mental Health (better known as CAMH), we sought to do so with the same level of anonymity that we do with all of our donations. So when CAMH's Foundation called us asking if we would put our family name on a treatment building at the hospital, my first impulse was to decline. For us, giving isn't about flashing our name in bright lights everywhere; it isn't about ego. It's about making a real difference where it counts most.

But, Darrell Gregersen, CAMH's Foundation president, and a person I have great respect for, wanted me to do it, so I agreed. It wasn't until attending the thank-you reception along with my parents and my wife Chris unveiling the name at CAMH's brand new Mood and Anxiety treatment facility, that something remarkable became apparent to me. During the reception several clients of CAMH, who had used this new wonderful facility, spoke very personally to me to say what this building name meant to them. They told us that the simple act of putting a name on that building made them feel legitimized and accepted in society for the first time in their lives. It was the first time they felt society understood their plight and was willing to support them. Isn't that just astonishing!

I'd like you to take a moment, now, to think about all the clinics, rooms, lecture theatres, wings, cafeterias, research labs, atriums, buildings and other spaces that Toronto institutions have named for supporters for years now. It's nothing new—right? Well, it's new at CAMH. Because of the stigma of mental illness and addiction, ours was the first; the very first named building they've ever had! In Toronto! The gratitude and validation of these people felt to me that we had made a tremendous impact on their lives.

It wasn't until that day, listening to those patients, that I realized that a significant part of making a real difference where it counts most in mental illness was putting that name up on the building. Or it's in coming forward. Think back to Michael Wilson telling his family's story. Or Harry Rosen. Or Valerie Pringle.

CAMH is a place that is trying to break down that stigma—literally brick by brick. If any of you have passed along Queen Street West recently, you'd have noticed that there's an awful lot of construction activity at the site that once housed the so-called Provincial Lunatic Asylum. Friends of mine who grew up in this city have relayed endless stories to me about how they were told as children that they would be sent to "999" (the old address of the hospital) if they didn't behave themselves. Back then, people were known to hold their breath when passing by on the streetcar so as to not catch the "crazy disease." We have come a long way to understanding mental illness since then.

Along Queen West you'll also see the heritage brick wall that once surrounded the asylum, designed to keep patients out of sight and for the most part, out of mind. Now much of the wall has come down to integrate the building with the surrounding neighbourhood.

But the stigma still pervades. Here in Toronto we have the largest mental-health facility in North America, one of the world's leading teaching hospitals for mental illness and addiction, and yet it has to be the only hospital with no trace of a gift shop. As CAMH's Senior Medical Advisor, Dr. David Goldbloom says often, there's no gift shop because not many people come to visit.

You may have heard or seen ads recently about Toronto's most life-changing address. I think it's a fair description of CAMH. There's no place in the world that combines clinical care, research, education and health promotion in the way that CAMH does.

Winston Churchill, speaking after parliament had been bombed in the war, said, “We shape our buildings and afterwards our buildings shape us.” This is really true of what CAMH is doing in their “big build” on Queen West. There’s a lot of symbolism in leaving up large portions of the old wall, a symbol of our old-fashioned view of mental illness and addiction.

But there’s even more symbolism in what they’re building on that site. In many ways the new buildings are secondary to what’s going on within them. They’re leading the evolution of clinical care for mental illness and addiction away from the traditional custodial model—one of protection and isolation—to a recovery model that’s focused on community reintegration. The old facilities are byzantine—this physical transformation is long from finished—and it needs the support of Torontonians and people right across this country.

Why? Because we have the opportunity to make a real impact. This is a moment that we must capitalize on. Today, the science of the least-understood organ in our body—the brain—is at a tipping point. We now know that mental illness and addiction can be treated and recovery is possible. Every day, scientists and clinicians, lead by those at CAMH, are adding to the evidence that these conditions are treatable illnesses.

CAMH’s research program is ranked among the top-five in the world. Its peers include Harvard, the University of Pittsburgh, the Institute of Psychiatry in the U.K., and the University of California. It is a world leader in psychiatric genetics, epigenetics and brain imaging. Its PET (positron emission tomography) scanner is the only one in the world that is dedicated to brain imaging for mental illness and addiction research. And its groundbreaking research in genetics is contributing to personalized medicine in mental illness, addiction, diabetes and other chronic diseases. Last year, as recommended by an international peer review panel, CAMH was awarded the largest

research grant ever in mental health and addiction through the Canada Foundation for Innovation.

Here, in our backyard, CAMH has six times as many scientists, research staff, fellows and students as the next-largest mental-health research operation. From neurons to neighbourhoods, CAMH research is advancing prevention and treatment. For individuals with depression, schizophrenia or Alzheimer's disease, this is where research is helping us understand how medications affect people differently.

From mapping out the genetic underpinnings of tobacco addiction to helping us evaluate the impact of housing, employment, education and other factors on treating mental illness and preventing relapse, CAMH is second to none.

CAMH is the largest training ground for mental-health and addictions professionals in North America. It trains 25 per cent of all the psychiatrists in Canada and half of the psychiatrists in Ontario. Internationally, CAMH is training professionals in 18 different countries. They're at the forefront of working to understand how culture and ethnicity interact with success care and they're especially aware of the need to address the stigma of mental illness in diverse communities.

I'll give you one example—a successful specialized addiction treatment program for urban Aboriginal people, which blends modern, progressive clinical addictions treatment with traditional, culturally adapted care. It employs Aboriginal staff, including a Cree elder.

That program is based in the first phase of the "new CAMH" unfolding along Queen West. It's just what I mean—or actually, what Churchill meant—about a vision unfolding within buildings that we shape. The next phase there is about transforming the face—and the future—of mental illness and addictions.

Encompassing over nine city blocks in the heart of Toronto, CAMH will open up to the community with new

treatment centres, innovative programs, bright and inviting spaces and a model of care that emphasizes recovery.

During the recent demolition of the “old-school” administration building on Queen Street, I was told that one patient remarked, “Now we can see out and they can see us.”

I couldn’t have said it any better myself. Which brings me to the second word I would like you to take home with you today—courage. There is nothing more remarkable than seeing, hearing, and feeling the courage that patients of CAMH demonstrate each and every day as they succeed in their journey to come back from a life of despair. There is nothing more inspiring than hearing a sample of these stories at the annual CAMH Transforming Lives dinner, where the best examples of this courage are honoured.

My hope is that all Canadians can muster the same courage as these clients of CAMH show, by speaking up, speaking out, overcoming the stigma and supporting this initiative.

So, I’m going to go back to my roots as a salesman as I wrap up here and ask you to do something after we part company today. Actually, two things.

1. I want you to start speaking about mental illness and addiction at your kitchen table, your boardroom table, in your doctors’ offices, and at your children’s schools. Help us continue to break down the stigma and discrimination that prevents us, in our otherwise compassionate, modern country, from getting the care and support we need to be well and to participate fully in our economy and society.

2. Join me in getting behind CAMH, a world leader and a national champion for this cause right here in our own backyard in Toronto. We can be proud of the remarkable progress that’s already being built on Queen Street West. I’m asking you to support a vision that is making history on the international stage—in any way you can.

We know the numbers. We know the impact. Think of Stigma; Think of Courage.

If, like me, you want to help reverse an extraordinary social injustice and get behind a cause that is universal and pervasive and make a real impact on people's lives, then you must join us on this incredible journey.

The appreciation of the meeting was expressed by Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada.



June 23, 2010

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

George Smitherman

TORONTO MAYORAL CANDIDATE 2010

EXCELLENCE AT THE CORE: A CITY THAT WORKS FOR ITS RESIDENTS

Chairman: **Alfred Apps**

President, The Empire Club of Canada

Head Table Guests

Lawrence Bloomberg, Director, National Bank of Canada; Bruce Davis, Trustee, Toronto District School Board; Amber Morley, South Etobicoke Youth Assembly; Andy Merchant, President, Canada-Pakistan Business Council, and Director, The Empire Club of Canada; Jo Basrur, Sister of Dr. Sheela Basrur, Former Toronto and Ontario Chief Medical Officer of Health; John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleishman-Hillard Canada, and President, The Canadian Club of Toronto; Greg Wong, CFO, Gulf & Pacific Equities Corporation, and Director, The Canadian Club of Toronto; The Hon. David Caplan, Member of Provincial Parliament for Don Valley East; Rob Oliphant, Member of Parliament for Don Valley West; and Ucal Powell, Executive Treasurer-Secretary, Carpenters District, Council of Ontario.

George Smitherman

Good afternoon and thank you for having me here today.

We're across the street from Serena Gundy Park, donated to the city in 1960 by the Gundy estate. The park has evolved since then with the needs of the community.

It's become wheelchair (and stroller accessible). It's now linked up with other parks to form a seamless recreation trail through the Don Valley, one that I have often used for marathon run training and to train for my bike ride to Kingston.

This Saturday, it's where I make my cricket debut, playing against Mayor Miller.

The park has also become a much bigger picnic destination, and more of a respite from the hum of the city.

And it's essential for the kind of progress I want to see at City Hall—constant improvement, constant evolution based always on an analysis of what is best for our individual and unique neighbourhoods and communities.

In a campaign season with simmering discontent at high levels candidates might be tempted to “just say no.” To be for nothing, and against everything. To simply rage against the machine.

That is not my approach because you cannot shirk the responsibility to lead. This isn't a time to do nothing; this is a time to start raising the bar.

A conversation about core services pre-supposes that in a world where governments face competing demands, you have to pick your spots to be effective, or put in another way, you can't be all things to all people, tempting as that may be.

I argue that what Toronto needs more than anything else is to re-focus on its core responsibilities: the core business of the City of Toronto.

Getting our city moving again is certainly “core.” It is core to our environmental objectives, it’s core to our quality of life and it’s core to our economic prospects, which is why I released my transit platform weeks ago.

Today, I want to talk about a new approach to core services: excellence and innovation. Let’s call it an attitude adjustment.

We need to start with a customer-service approach to city services, meeting the needs of residents, first, foremost and always. Our city services must be done well, from the large services like water and waste to the smaller ones like parking permits. We now have to focus city work on meeting a standard of excellence. And if we don’t do it well, let’s not do it at all. Because if there’s one thing that Toronto can ill afford it’s any more water in the wine—the surest route to mediocrity imaginable.

I think this city needs to look long and hard at a new way of delivering services. Just because we’ve always done it a certain way is not reason enough to keep doing it that way.

It’s time too to take lessons from the cities around the world that do it best so that we have benchmarks and higher standards to hold ourselves to.

At the same time, I am very aware that every city service is paid for by the hard work of Toronto residents and businesses. While five city departments have become smaller since 2003, more than 50 departments have grown faster than the rate of inflation.

Innovation and excellence must make economic sense too. Every city service must be called upon to innovate to both improve quality of service and to save money.

I certainly know that change doesn’t come just for the asking. You have to cajole it, you have to inspire it and I’ve found too that sometimes, if you really, really want it you have to demand it. And then, when it comes you need to reward it.

One of the things that people should know about me is that I have a high intolerance for mediocrity.

Let me tell you a story. From the time that I was a small boy, I used to clean my father's trucks. He had a fleet of mostly Mack trucks and I would go on Friday night and Saturday and wash his fleet. Just around noon-time on Saturday, my dad would go and stand out on the fence line and look down the row of trucks. He wanted to make sure that he could see the chrome bumpers perfectly lined up. And I'm not talking about one or two, I'm talking about 35 or 40 trucks lined up in a row.

That may sound like an obsessive attention to detail, but my father's concern about the appearance of his fleet went right to the heart of his commitment to the quality of his fleet, the excellence of his maintenance.

If you elect me as mayor, you should know that I am not the kind of person who can just simply walk by the small things that can have a big impact on our city. Like other Torontonians, I did a lot of garbage pick up during the strike last year. As a pedestrian, I regularly pick up garbage. Not because I want to, but because it's part of my duty as a citizen. Last weekend, I took a weed whacker out at one of the city's recreation centres. Again, not because I wanted to, but just to get the job done.

Let me be clear: if I'm elected mayor, we will not have five-foot high weeds on city property.

When I say to you that a major part of my election campaign is core services, what I'm telling you is that I will be a mayor who is rigorous in my pursuit of quality over quantity.

When it comes down to our core obligations, our core services, we need transparent and accountable measures that ensure that we don't land in the middle, we don't celebrate mediocrity.

When Toronto sets its mind to provide a service, we must do that at levels of quality that holds up to compari-

son—whether that's numeric or the bragging rights of civic pride.

It's our job; it's my job, if elected mayor, to lead the charge in re-thinking our core services. As we go about that, the tail must stop wagging the dog. It can't be about the status quo, it has to be about what people really need. We haven't maximized our full potential. It's time to do just that.

Over the past 30 years we have become a more peaceful city, with less violent crime of all kinds. So far this year, this trend has continued with an overall reduction of 8 per cent in major crimes against people and property.

That doesn't mean that every neighbourhood is as safe as it needs to be and in many of our neighbourhoods, we don't feel safe. When I lived at Sherbourne and Shuter and set out to rent an apartment in my house, I learned just how differently men and women feel safety, and at the end of the day a sense of safety is the real measure.

It's also time for our city to be more proactive on safety in our public-housing communities. We need to own up to the fact that we are failing to provide a safe and secure environment for 100,000 people living in city homes.

As a provincial cabinet minister, I approved the funding to put more police officers on the street. That's something I've always supported. I am a vigorous defender of current police budgets. But, as in any large budget, there is room for improvement. We need to find efficiencies in current budgeting to hire at least 50 more uniformed officers. We need to rigorously control overtime pay, and use the savings for new police officers to target guns and gangs. And the city, following up on the auditor's report, needs to re-examine how we use paid duty officers.

It's also time for our city to be more proactive on community safety. A statistical measure of incidents is important, because you want to know how you're doing, but it can't be a proxy for safety. And I think that one of

the things that can enhance the perception of safety in this city is a greater use of technology.

The G-20 extravaganza has brought 77 surveillance cameras to Toronto to provide security. We can certainly debate whether or not that was necessary for presidents and prime ministers, but Torontonians deserve the forward deployment of more cameras. Cameras have a proven deterrent effect and can also be very helpful in solving crimes and for finding loved ones who go missing. We've all paid for these cameras, and now we must get to keep them. I insist that Toronto gets at least some benefit from the massive inconvenience.

My job, if elected, is to be the one who leads the call for qualitative improvement in the safety of this city. It's not good enough to just reduce crime; we have to feel safer.

As Minister of Health, I had the responsibility for emergency services and learned a lot about it. I think I know a way to save lives by combining fire and EMS to improve life-saving response times.

Timely response to a medical emergency is a huge factor in a successful outcome. In many, many circumstances the fire service is the first on the scene of an emergency but fire fighters are not as well trained or equipped as EMS personnel are to offer the kind of life saving that our loved ones may desperately need. I'm convinced that a fully integrated system for the most serious calls can save lives. I would call for a task force that helps design a service that combines the speed of the fire response with the health-care training of EMS. I also think this should be an essential service with no strike option. Saving minutes can save lives.

Frankly, I'm interested in quality improvements that are going to make a tangible difference to the citizens of Toronto. Quality is not about saving a dollar. First and foremost it's about providing real-quality service to the citizens who need it, to the citizens who pay for it.

A year ago today was the first full day of a garbage strike which we collectively endured for 40 days and it left us all with a bad taste in our mouths.

Under such conditions, there was some public discussion about outsourcing. And certainly some people are still talking about it. I'll say it straight. Outsourcing is an option but the real issue here is services first. Any conversation around the issue of who picks up the garbage, must be predicated on the service first. This is the principle that I will always bring to these conversations.

Those who are in a rush to the lowest-cost provider do not have regard for the highest calibre of service, and I started this speech by telling you that that is job one for me. Quality of service is where I will start; it will be the starting point.

In the last six or eight years the city and Torontonians have gone through an extraordinary garbage transformation. And everybody's got the bins to prove it.

Rates of diversion are on the rise, but for all of our efforts, we still send our garbage down the road. We still produce 30,000 tonnes a year of contaminated recycling that goes to landfill.

The capacity at Green Lane, the landfill site that Toronto paid for, is quite limited. I'm the son of a truck driver, and yet, I get little comfort from the idea that Toronto ships thousands of truckloads of garbage to Michigan and to London, Ontario.

The reality is that Toronto's garbage outstrips our capacity to contain it and I don't think that's good enough. We need a major garbage re-think.

Therefore, if I'm elected mayor, I will open up Toronto's City Hall to an ongoing discussion about how to become more and more sustainable and responsible.

I plan to appoint a technical, scientific advisor on waste reduction, reporting to the mayor.

There are ways to do it. Our Blue Bin program could work better by rewarding people for recycling.

RecycleBank, an innovative new company, weighs your neighbourhood recycling and provides loyalty points to be redeemed at local retailers. We've had a look at what RecycleBank does in other cities, and in addition to increasing recycling rates, locally run businesses reap benefits.

For me, it's about rewarding good behaviour.

In a city where more and more of us live in apartments and condos, we also need to look at microcomposting in apartment buildings. It makes no sense to truck out our organics to Quebec and then to go and buy garden compost.

We have to break the cycle and start doing it ourselves.

Our water department is calling out for a re-think too. Many of you noticed, as I certainly did, the annual 9-per-cent increase in water rates on the most recent bill. With an increase in cost, there must be an increase in service quality especially reductions in the amount of water lost on route to your tap and reductions to occurrences where we flood our beaches with overflow untreated waste.

I want us to become a city known not for our bills and our bins but for our natural beauty and our architecture.

We are just a few days away from the G-20 summit and I sincerely hope that the foreign journalists covering this event look beyond the fake lake. We are a city on a Great Lake, the fourteenth-largest fresh water lake in the whole world.

It's time that Torontonians stood up and reasserted our purpose as a great city on a Great Lake. It's time we turned toward the lake and embraced our lakefront in every meaningful way. It's time we took a dip. To start with, if I'm elected mayor, I want to see simple showers installed at our beaches—20 showers at our beaches so we can rinse off after a swim.

I'd also like to see a city-based Twitter feed and Web posting on the temperature and conditions on the beaches. We'd like to know if the water is fine.

We also need to encourage the TTC to run seasonal buses to our great beaches. You can't swim if you can't get there.

I support free ferry rides for children under 12 to help encourage more families to go and spend time on our beautiful island beaches.

At the same time, we need to keep that swimming water clean. Toronto participates in the international "Blue Flag" swimmable beaches program and we need to ensure that our storm water diversion is the best available so that we can increase the number of beaches where you can see the "Blue Flag" fly. We can hardly call our city and our lake "great" if we continually foul our beaches.

We need to be more focused on the quality of our drinking water and on making sure that people have more ready access to it.

I could go on much longer on what needs to be done to ensure excellence in our core services but I am afraid I am out of time.

Thank you ladies and gentlemen.

The appreciation of the meeting was expressed by John Capobianco, Senior Vice-President and Partner, National Public Affairs Practice Lead, Fleishman-Hillard Canada, and President, The Canadian Club of Toronto.

Report of the Nominating Committee

June 17, 2010

Jo-Ann McArthur

Mr. Chair, fellow Past Presidents and directors, members of The Empire Club of Canada: it is my pleasure to chair the Nominating Committee and to report its recommendations to this Annual General meeting respecting the slate of Empire Club Directors for the 2010–2011 year.

The Nominating Committee

There was a very clear desire on behalf of the 2009–2010 Board and the Nominating Committee this year to reduce the size of the Board which is reflected in the modified by-laws that have just been discussed and adopted.

As such, it is my pleasure to propose the following “slate” of Directors for the 2010–2011 year (year to begin July 2010).

1. Amanda Alvaro, Managing Director, Narrative Advocacy
2. Beverly Brooks, Vice-President, Hill & Knowlton
3. Craig Brown, Partner, Faskin Martineau DuMoulin
4. Lorna Counsell, Vice-President Legal and Governmental Affairs, Porter Airlines
5. Verity Craig, Managing Director, CV Management
6. Noble Chummar, Partner, Cassels, Brock and Blackwell LLP
7. Cam di Prata—National Bank, EVP and Head of Corporate and Investment Banking

8. Mike Eppell, Senior Business Editor, 680News
9. Heather Ferguson, Recent Past-President, The Hearing Foundation of Canada
10. Rudyard Griffiths, Author, Commentator; Co-Founder, The Dominion Institute
11. Richard Goodall, Chartered Accountant
12. Stanley Hartt, Chairman Macquarie Capital Markets
13. Anetta Jewell, CEO, Great Lakes Brewing Co.
14. Roberta Jamieson, CEO, National Aboriginal Achievement Foundation
15. Nancy Lang, Writer and Film Maker
16. Anthony Lacavera, Chair and CEO, WindMobile
17. Michael Levine, Partner, Goodmans
18. Kate Lyons, Partner, Goodmans
19. Costas Menegakis, Founder, Tilwood Group Inc. and President of the Toronto Greek Community
20. Andy Merchant, President, Canadian-Pakistani Business Association
21. Doug Morris, President, Morris Glass and Windows/Humidity Solutions
22. Robin V. Sears, Principal, Navigator Inc.
23. Pradeep Sood, Chair, Ontario Chamber of Commerce
24. Vivian Prokop, CEO, Canadian Youth Business Foundation (CYBF)
25. Neil Selfe, Managing Director, Investment Banking, GMP Securities
26. Alex Squires, Managing Partner, Brant Securities
27. Frank Vettese, Managing Partner, Financial Advisory group, PriceWaterHouseCoopers

28. John Walker, President and CEO, Transition Plus Sustainability Solutions Inc.
29. Geoff Wilson, President & CEO, Toronto Port Authority
30. William F.(Bill) White, President, IBK Capital

In addition, the following past-presidents have agreed to stay on the Board for one more year:

Alfred Apps, Partner, Fasken Martineau

Jo-Ann McArthur, Principal, fisheye

Catherine Swift, President and CEO, Canadian Federation of Independent Business

Rev. Dr. John Niles, Senior Minister, St. Andrews United Church Markham

Officers

Furthermore, the proposed President-Elect is Tim Reid, Director Business Development. The rest of the Executive Committee are to be elected at the first 2010–2011 Board meeting.

Mr. Chair, I would like to propose a motion for the slate as presented to be approved.

Respectfully submitted,

Jo-Ann McArthur

Chair, 2009–2010 Nominating Committee

The Empire Club of Canada

THE EMPIRE CLUB OF CANADA

Membership 2009–2010

Ahmad Abdalla
Angela Albini
Charles Allain
Moe Allana
Jeff Anders
Ian Anderson
John Andrew
Sekhar Angepat
Nancy Hughes Anthony
James Appleyard
Alfred Apps
Marvin Arnold
H. Anthony Arrell
Houry Artinian
Toni Ashton
Ron Atkey

Edward and Jocelyn Badovinac
Mehmet Bagriacik
Jack Bakker
Ruth Beaucage
Adriana Beemans
Julia Beginina
Dr. Stan Benda
Avie Bennett
Dr. Henry Berry
Peter Bethlenfalvy
Elisabeth Bihl
Capt. S. W. (Sam) Billich
Peter J. Bloemen
Brian Bloom
George Boddington
Mr. & Mrs. John M. Boersma
Davi Bosch
Debbie Boukydis
Richard Boxer
Lydia M. Boyko
Dino Bozzo
Marcus Breitschwerdt
Dan Brintnell
Robert Brooks
Louis Brousseau
Claire Brown
Richard Bruton
Robert Bryce
Thomas Caldwell

Mac Campbell
John Campion
John Capobianco
Lily Caputo
Gilda Carbone
Brian Cartwright
James Chaffe
Mr. & Mrs. George Chalmers
Ray Charbonneau
David I. A. Charing
Catherine R. Charlton
Corneliu Chisu
Ramesh Chotai
Rose Cisterna
Peter J. Clarke
Gary Clement
Sara Clodman
J. M. Coker
Mr. & Mrs. Clive Coombs
Fran & Lloyd Cooper
Bob Copeland
Lois Corbett
Alan Cornish
Lory Corso
Joan M. Costa
Alec Couckuyt
Verity Craig
J. S. Crichton
Joyce Crook
Scott Crowley
Ann Curran
Blaine Currie
Peter Cushman
Dr. Kalman N. Czegledy

Timothy Daciuk
The Hon. Barnett Danson
S Darveshali
Donald L. Davis
Michael B. Deeb
Cam di Prata
Maria Louisa Diaz
Paula Didomenico
Charles Dillingham
Helmut Dostal
Greg Dowdall
Petros Dratsidis

Stephen Dulmage
A. Carlyle Dunbar

Stuart E. Eagles
Allan Ebedes
David Edmison
Warrington Ellacott
Bridgette Ensor
Tenio Evangelista
John Ewing

Andrew Feindel
Heather Ferguson
George Fierheller
Cindy Finley
Henry Fiorillo
Michael Flatt
Robert J. Fleming
Maurice Forget
John Formosa
Kelden Formosa
Don Forsey
Ruth Fothergill
Patricia Reason & Kenneth Found
Hugh Franks
Steve Franks
Landon French

Fred Gaskin
Stan Gasner
Vincent Gasparro
Rodrigue Gilbert
Yasmin Glanville
JoAnne Gludish
Lionel J. Goffart
Blake Goldring
Carol Golench
Richard Goodall
David Goodwin
Lenora Goodwin
David J. Grace
Dr. M. E. Graham
Michael Graham
The Hon. & Mrs. William C.
Graham
Dragica Grbavac
Felim Greene
Doris Grinspun
Howard Gross
Silvia Gualtieri
A. Barbara Gunther
H. D. Guthrie
Ryan Guthrie

Paul Haberl-Schicker
Jack Halpern
Ann Hamilton
Amy Harder
Uwe Harnack
Paul Harricks
Mr. and Mrs. Alfred H. L. Harris
Michael Harrison
Kamal Hassan
Clifford Hatch
H. Clifford Hatch Jr.
John Have
Duncan Hawthorne
Raj Hayer
William Hazelton
Leslie Herr
Marion Heslewood
Donald E. Hewson
Gordon Hicks
Scott B. Hill
Rubsun Ho
Fraser Howell
John Hrycak
Susan Hunt
Paul-Arthur Huot
Julien Hutchinson
Richard T. Hynes

Levon & Caterina Ichkhanian
Patrick Imbert
Patrick Inbert
Arnold Irwin

Duncan N. R. Jackman
Rev. Edward J. R. Jackman
Anita Jackson
Patricia D. S. Jackson
Nathan Jacobson
Barbara Jafelice
Roberta Jamieson
Thomas G. Jamieson
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Peter Jobling
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The Right Rev. Colin R. Johnson
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Joseph Kanoza
Pamela Kanter
Sean Karow
Gil Katz

Clayton Keefe
Kate Keefe
Michael Kennedy
Peter Kenny
Phillip Khaiat
Barry Khojajian
Bhekuzulu Khumalo
Nola Kianza
Graeme Kirkland
Sara Knapp
Marie Knaul
LCol Gerhard A. W. Knopf
Michael Kobzar
Tom Koger
Elizabeth Kolbert
Casey & Mary Koopman
John Koopman
Han Koren
Michael Koscec
Elliot Krangle
Jan Krizan
Stan Krol
Dr. George Krynski
Michael Krywenky
Ed Kukiel
Robert (Bob) Kuzminski

Donna Lacavera
Bill Laidlaw
Paul Lalonde
Lara Lam
Michael Landry
Kathryn Langley Hope
Peter Large
Delores Lawrence
Normand Leblanc
Michel Leduc
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Laura Legge
Eric N. Lehner
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Mark Madras
Susan Maidment
Larry Malony
Kenneth Maly
George Malyk
Hugh Mansfield
Raj Manucha
Anthony (Tony) Martino
Ian Mason
Susan Massey
Christopher May
Jo-Ann McArthur
Michele McCarthy
Gary W. McCracken
Hon. Barbara McDougall
Robert McDowell
Nancy McFadyen
Jennifer McIlroy
John McKendry
Mike McKeon
Joyce McKeough
Robert McKeracher
Michael McLaughlin
Costas Menegakis
Anwar (Andy) Merchant
Ron Mernick
Scott Metcalfe
Oliver Mexner
Jim Milway
Elizabeth Minaker
Jeff More
Douglas Morris
Dr. Jean A. Moss
David Mousavi
William Mullett
Peter Munk
Laetitia Murray

Joe Nadler
Dawn Nevills
Marisa Nicholishen
Heather Nicolson Morrison
Rev. Dr. John Niles
Luke Nixon-Janssen
Michael J. Norris

Mr & Mrs. Joe Nusca

Allan and Kathryn O'Dette

Kenneth Ogilvie

Peter Olierook

Gordon Orlikow

Jean Ouellet

Col. Edmunds Ozols

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Stefan J. Preisenhammer

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Tony Pullen

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Dr. Sophie Radziuk

Paul Ragan

Feaz Rahim

Stevan Ralph

Gordon & Lynn Rands

Hari Rao

Gary Reamey

Hershel Stuart & Robin Recht

Marc Reeve-Newton

Helen Reeves

James Reid

Martin Reid

Tim Reid

Rozanne Reszel

Heather Reuber

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Gary Rogers

George Ross

N. William C. Ross

Tim Rourke

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Tony Russell

Joy Rychlik

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Val Samonis

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Paul Scrivener

Robin V. Sears

Neil Selfe

R. Dorene Seltzer

Harry Seymour

Angela Shama

Dan Shekhar

Richard Shekter

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Oskar Sigvaldason

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Ken Smith

Rick Smith

Gerald Soloway

Gerald M. Soloway

Ingrid Sommer

Shael S. Sone

Manny Sousa

Susan Spence

Roland Spies

Vincenzo Spogli

Alex Squires

Ahila Srikandarajah

Randy Stackaruk

Barbro Stalbecker-Pountney

Yiannis Stamatakos

Donald Steadman

William Steadman

Dr. Robert Steffer

Jason Stein

Sinclair M. Stevens

Gunter Strangemann

Adam Stratton

Thomas John Succamore

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Tina Tehranchian
Jacqueline R. Telfer
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Nick Theofanis
Stuart Thompson
Beverly Topping
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Judith Wolfson

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Luke L. Zych

March 2014

The University of Chicago Press is pleased to announce the publication of the first volume of the new series, *The Cambridge Companion to the History of the United States*, edited by Robert Self. This volume is the first of a series of three volumes that will explore the history of the United States from the perspective of the United States itself. The volume is a comprehensive survey of the history of the United States from the early years of the nation to the present. It is a volume that is both accessible and scholarly, and it is a volume that is both a survey and a critical analysis of the history of the United States.

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THE EMPIRE CLUB FOUNDATION

March, 2011

Fellow members,

The Empire Club Foundation continues its work of providing an avenue for charitable giving in support of the objectives of the Empire Club of Canada. The Empire Club of Canada has recently completed a couple of challenging years. The 2008/2009 financial crisis did not leave us untouched and did impact on the ability of the Club and Foundation to fulfill their mission.

The Empire Club of Canada however has survived for 107 years and we are confident that its mission, and thus that of the Foundation remain more important than ever. We will continue to provide our members and anyone in the world at large, thanks to the Internet, with any intellectual curiosity, or with any interest in public affairs, the opportunity to see, hear, and read speeches relevant to our times, by leaders from all walks of life.

Through the digital world, and our annual volumes we provide a necessary window into current events that will be available for the ages, and we hope an important source for the historians of the future. Through the Club's live addresses we give members the opportunity to assess credibility and judge nuance that is not possible from the printed text.

With your generous support we will continue our work, and this volume will continue to be distributed to our members, all public libraries in Canada, and Canadian embassies and consulates around the world.

Sincerely

John C. Koopman
Chairman

THE EMPIRE CLUB FOUNDATION

Patron

Col. The Hon. Henry N. R. Jackman, OC, CD, KStJ, LL.D.

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Gareth S. Seltzer

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THE EMPIRE CLUB FOUNDATION CONTRIBUTORS

April 30, 2009–April 30, 2010

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CONSTITUTION

The Empire Club of Canada By-Law No. 1

Being a special by-law relating generally to the administration of affairs of The Empire Club of Canada

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The following is hereby enacted as By-Law No. 1 of The Empire Club of Canada (hereinafter called the "Club"):

ARTICLE I	<i>Definitions and Interpretation</i>
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Section 1.01 Definitions

In this By-Law, the following words and phrases shall have the following meanings, respectively:

- a) "Act" means the *Corporations Act*, R.S.O. 1990, c.C.38 as amended, and every statute that may be substituted therefore and, in the case of such substitution, any

reference in the By-Law of the Club to provisions of the Act shall be read as references to the substituted provisions therefore in the new statute or statutes;

- b) **“Board”** means the board of Directors of the Club;
- c) **“By-law”** means this By-Law and all other by-laws and special by-laws from time to time in force and effect;
- d) **“Club”** means the corporation incorporated by Letters Patent issued on the 26th day of March 1912, pursuant to *The Ontario Companies’ Act* and operating under the name of The Empire Club of Canada;
- e) **“Notice”** means, the provision of information, orally, or in writing, and may be communicated via telephone, facsimile transmission, publication, or electronic mail, and is deemed to be effective on the date the notice is sent or published, and such Notice shall be sufficient if addressed to the Members at their respective Recorded Address, and deposited post paid in the post office in Toronto;
- f) **“Recorded Address”** means, in the case of a Member, his or her address as recorded in the register of Members and, in the case of a Director, Officer, auditor or member of a committee of the Board, his or her address as recorded in the records of the Club;
- g) **“Registered Office”** of the Club will be at such location in the City of Toronto as determined by the Board from time to time;
- h) **“Special Resolution”** means a resolution passed by the vote of at least two-thirds of the Members present and voting at a duly convened meeting;
- i) **“Member”** means a member of the Club; and
- j) **“Officer”** means those officers of the Club set out in Article VIII.

Section 1.02 Interpretation

This By-Law shall be interpreted in accordance with the following, unless the context otherwise specifies or requires:

- a) Words importing the singular number or the masculine gender shall include the plural number or the feminine gender, as the case may be, and vice versa, and references to persons shall include individuals, firms and corporations; and
- b) Headings used in this By-Law are inserted for reference purposes only and are not to be considered or taken into account in construing the terms or provisions thereof or to be deemed in any way to clarify, modify or explain the effect of any such terms or provisions.

Section 1.03 Repeal of Previous By-Laws

All previous By-Laws relating to the administration of the affairs of the Club are hereby repealed and replaced with this By-Law.

ARTICLE II *Business of the Club*

Section 2.01 Name

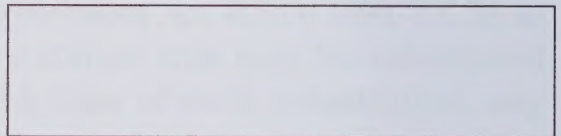
The name of the Club is "The Empire Club of Canada."

Section 2.02 Registered Office

Until changed in accordance with the Act, the Registered Office of the Club shall be in the Province of Ontario and at such location therein as the Board may, from time to time, determine by resolution.

Section 2.03 Corporate Seal

The seal, an impression whereof is stamped in the margin hereof, shall be the seal of the Club.



ARTICLE III *Purpose and Object of the Club*

The purpose and object of the Club is to promote the interests of Canada and the British Commonwealth of Nations.

ARTICLE IV *Membership*

Section 4.01 Classes of Members

The membership of the Club shall consist of:

- a) Life Members;
- b) Senior Members
- c) Regular Members;
- d) Junior Members; and
- e) Spousal Members

All members of classes (a), (c), and (e), must be the full age of eighteen years (excepting Senior Spousal Members), and otherwise have the capacity under law to contract.

Section 4.02 Life Members

Members of the Club in good standing may be elected to be Life Members by a two-thirds majority of those present at a Board meeting. Life Members shall pay one fee only, variable by age of the applicant, as may be fixed and published from time to time by the Board of Directors.

Section 4.03 Senior Members

Senior Members of the Club shall be of such age, and employment status, as determined by the Board of Directors from time to time.

Section 4.04 Regular Members

Candidates for Regular Membership shall be proposed by a Member in good standing and shall be elected by a two-thirds majority of those present at a Board meeting.

Section 4.05 Junior Members

Candidates for Junior Membership shall be between the ages of 14 and 35 years, proposed by a Member in good standing, and elected by a two-thirds majority of those present at a meeting of the Board of Directors.

Section 4.06 Spousal Members (Regular and Senior)

Spousal Members are charged annually a lesser membership fee for a spouse living at the same address as a Regular Member, Junior Member, or Senior Member.

Section 4.07 Membership Fees

- a) All Members (excepting Life Members) shall pay respectively such annual fees as may be fixed and published from time to time by the Board of Directors;
- b) All Members elected after the first day of March in any year shall pay one annual fee only in respect of the period from the date of election until the 30th day of September in the following year; and
- c) For all Members, membership shall end June 30, and if any Member is in arrears for fees after February 1 of the following year, such Member will no longer be considered in good standing.

ARTICLE V *Directors*

Section 5.01 Duties and Powers of Directors

The affairs of the Club shall be managed by a Board of Directors who may exercise all such powers and do all such acts and things as may be exercised or done by the Club.

Section 5.02 Number

The Board of Directors shall comprise 40 persons and shall include all of the following:

- a) 30 Members;
- b) The four Immediate Past Presidents; and

- c) six Officers.

Section 5.03 Quorum

Ten Directors present at a meeting of the Board shall constitute a quorum.

Section 5.04 Qualification of Directors

Each Director shall:

- a) be at least eighteen (18) years of age;
- b) be a Member of the Club;
- c) not be an undischarged bankrupt; and
- d) have the capacity under law to contract.

Section 5.05 Nomination and Election of Directors

Nominations for election as Director at the Annual Meeting of the Club may be made in accordance with the following process:

- a) The Board shall charge a committee with responsibility for the nominations process relating to the election of Directors, (the "Nominating Committee"), which shall consist of five Directors and four other Members of the Club;
- b) The Nominating Committee shall be appointed annually by the Board of Directors in accordance with Article 7.01;
- c) The Nominating Committee shall prepare a list of the nominations for Directors for the ensuing year;
- d) The Chair (or acting Chair) of the Nominating Committee shall report the nominations to the Annual Meeting at which the Board of Directors shall be elected, but nothing herein shall preclude the nomination of other persons for the office of Director at the Annual Meeting;
- e) If nominations do not exceed the number of Directors necessary, the Chair of the meeting may instruct the Secretary to cast one ballot in favour of those so

- nominated and thereupon such persons shall be declared by the Chair to have been duly elected;
- f) If the nominations exceed the number of Directors necessary, the Chair will call for a show of hands, unless a poll be demanded by the Chair or by any candidate for election. Upon a show of hands every member having voting rights shall have one vote and a declaration by the Chair that a resolution has been carried or not carried followed by an entry to that effect made in the minutes of the Club shall be prima facie evidence of the fact without proof of the number or proportion of the votes accorded in favour or against such resolution. The demand for a poll may be withdrawn, but if a poll be demanded and not withdrawn the question shall be decided by a majority of the votes cast and such poll shall be taken in such manner as the Chair shall direct. The result of such poll shall be deemed the decision of the Club upon the matter in question. In the event of the equality of the votes cast, whether by a show of hands or by a poll, the Chair shall be entitled to a second or casting vote; and
- g) No person shall be elected a Director unless he is a Member in good standing.

Section 5.06 Honorary Directors

A Member, whose service to the Club has been exemplary, may be elected to the position of Honorary Director annually by a two-thirds majority of Directors, subject to re-election.

Section 5.07 Remuneration of Directors

The Directors shall receive no remuneration for acting as such.

Section 5.08 Casual Vacancies

In the event of any vacancy occurring in the office of Director, the remaining Directors may fill the vacancy from among the Members for the unexpired portion of the term of office of the person whose office is vacant.

ARTICLE VI *Meetings of The Board*

Section 6.01 Procedure

The procedure for regular Board meetings is as follows:

- a) Board meetings shall be called by the President, or on a requisition signed by ten Directors;
- b) The President shall, when present, preside at all meetings of the Members and of the Board of Directors. During the absence or inability to act of the President, the Vice-Presidents in order of seniority, shall act as Chair at such meetings;
- c) Questions arising at any meeting of the Directors shall be decided by a majority of votes unless otherwise specifically provided by statute or this By-Law. In the case of an equality of votes, the Chair of the meeting, in addition to his original vote, shall have a second or deciding vote;
- d) All votes at any meeting shall be taken by ballot if so demanded by a majority of Directors present, but if no demand be made, the vote shall be taken by a show of hands; and
- e) A declaration by the Chair of the meeting that a resolution has been carried and an entry to that effect in the minutes shall be admissible in evidence as prima facie proof of the fact without proof of the number of proportion of the votes recorded in favor of or against such resolution.

Section 6.02 Notice

- a) Notice shall be given to each Director and Honorary Director five days or more before the Board meeting is to take place, provided that a Board meeting may be held at any time if all Directors are present or if those absent have waived Notice or otherwise signified their consent to such meeting being held in their absence, in writing;

- b) Notice of regular Board meetings may be given via telephone, facsimile transmission or electronic mail to each Director, and Honorary Director;
- c) Waiver of Notice may be given via facsimile transmission or electronic mail to each Director, and Honorary Director; and
- d) The Board may appoint a day or days in a month or months for regular meetings, at an hour or place to be named, and of such regular meetings, no notice need be given.

ARTICLE VII *Committees*

Section 7.01 **Standing Committees**

The following standing committees and the Chair of each shall be appointed by the Board of Directors as soon as convenient after each election of the Board:

- a) Budget and Finance Committee;
- b) Speaker's Committee;
- c) Membership Committee;
- d) Constitution and Corporate Governance Committee;
- e) Reception Committee;
- f) Publicity and Public Relations Committee;
- g) Yearbook Committee;
- h) Head Table and Attendance Committee; and
- i) Nominating Committee;

provided that for any year the Board of Directors may by resolution elect not to appoint any one or more of such committees.

Section 7.02 **Other Committees**

The President or the Board of Directors may from time to time appoint such other Committees as may be deemed expedient, necessary or appropriate for such purposes and with such powers as the President or the Board shall see fit.

Any such Committee may formulate its own rules of procedure, subject to such regulations or directions as may from time to time be made by the President or the Board.

Section 7.03 Removal from Committees

Any committee member may be removed by resolution of the Board.

ARTICLE VIII *Officers*

Section 8.01 Appointment of Officers

The Board of Directors shall meet as soon as convenient after their election for the purpose of appointing the Officers of the Club for the period ending June 30th in the next year, but each Officer shall continue in office until his successor is appointed. No notice of the meeting to appoint new Officers is required if this meeting is held immediately after the Annual Meeting.

Section 8.02 Honorary Officers

The Honorary Officers of the Club shall consist of the following:

- a) Honorary President;
- b) Honorary Vice-President;
- c) Honorary Chairman;
- d) Honorary Secretary;
- e) Honorary Treasurer; and
- f) Honorary Solicitor.

Section 8.03 Officers

The Officers of the Club shall consist of the following:

- a) President;
- b) First, Second and Third Vice-Presidents;
- c) Secretary; and
- d) Treasurer.

Section 8.04 Qualifications

- a) All Officers other than Honorary Officers shall be Directors of the Club;
- b) No person other than the Honorary President and the Honorary Vice-President shall be eligible for office unless he is a Member in good standing; and
- c) In the event of a vacancy occurring in any office, the Board of Directors may fill the vacancy for the un-expired portion of the term.

ARTICLE IX *Regular, Special and Annual Meetings*

Section 9.01 Regular Meetings

The Club shall hold Regular Meetings weekly, if possible, from September to June, inclusive, with such intermissions as may from time to time be determined by the Board of Directors.

Section 9.02 Special Meetings

Special Meetings of the Club may be called at any time by the President, or on a requisition signed by ten Directors.

Section 9.03 Annual Meetings

The Annual Meeting shall be held not later than June 30th of each year. At the Annual Meeting a report of the year's proceedings and work shall be submitted by the President and this report shall be accompanied by an interim financial report from the Treasurer.

Section 9.04 Notice of Meetings to Members

- a) Notice of all Regular Meetings shall be given to all Members of the Club at their Recorded Address;
- b) Notice of all Special and Annual Meetings shall be given to all Members of the Club at least ten days prior to the date upon which the meeting is to be held; and

- c) The accidental failure or omission to give notice to any Member shall not invalidate the proceeding at any meeting.

Section 9.05 Quorum at Meetings

Sixteen Members in good standing shall constitute a quorum at any meeting of the Members of the Club.

Section 9.06 Limitation of Business at Regular Meetings

No business shall be introduced at any Regular Meeting of the Club by any person other than the Chair of the meeting, unless it has been approved by the Board prior to the meeting.

ARTICLE X *Fiscal Year*

The fiscal year of the Club shall end on such day in each year as may be fixed by the Board of Directors, but if not so fixed by the Board, it shall end on June 30.

ARTICLE XI *Not-For-Profit Corporation*

The Club shall be operated without the purpose of gain for any of its Members and any profits or other accretions to the Club shall be used in promoting the objects of the Club.

ARTICLE XII *Amendment of By-Laws*

The By-Laws of the Club may be repealed or amended by a by-law enacted by the Board of Directors and sanctioned by an affirmative vote of two-thirds (2/3) of the Members at a meeting duly called for the purpose of considering such repeal or amendment.

ARTICLE XIII *Auditor*

- a) An Auditor shall be appointed at each annual meeting at a remuneration to be determined by the Directors.

Section 14.01 Protection

For the protection of Directors and Officers:

- a) No Director or Officer shall be liable for the acts, receipts, neglects or defaults of any other Director, Officer or employee or for any loss, damage or expense happening to the Club through the insufficiency or deficiency of title to any property acquired by order of the Board or for or on behalf of the Club or for the insufficiency or deficiency of any security in or upon which any of the moneys of or belonging to the Club shall be placed out or invested or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person, firm or company with whom or which any moneys, securities or effects shall be lodged or deposited or for any other loss, damage or misfortune whatever which may happen in the execution of the duties of such Director's or Officer's respective office or trust or in relation thereto, unless the same shall happen by or through such Director's or Officer's own wrongful and willful act or through his own wrongful and willful neglect or default.
- b) Directors and Officers shall not be liable to the Club for any costs, charges, expenses, loss or liability which the Club shall suffer or incur for, by reason of, arising out of, or in any way relating to any act, deed, matter or thing made, done or permitted to be done or omitted to be done by him in the performance of his duties and functions (or in the performance of what he honestly believed was in the proper performance of his duties and functions), provided he acted or made such omission honestly, in good faith and without fraud or fraudulent intent.

Section 14.02 Indemnity

Every Director or Officer of the Club, and his heirs, executors and administrators, and estate and effects, respectively, shall

from time to time and at all times, be indemnified and saved harmless out of the funds of the Club from and against:

- a) any and all costs, charges and expenses whatsoever which such Director or Officer sustains or incurs in or about any action, suit or proceeding that is brought, commenced or prosecuted against him, for or in respect of any act, deed, matter or thing whatsoever made, done or permitted by him, in or about the execution of the duties of his office; and
- b) any and all costs, charges and expenses that he sustains or incurs in or about or in relation to the affairs thereof, except such costs, charges or expenses as are occasioned by his own willful neglect or default.

Section 14.03 Insurance

The Board shall cause to be purchased such insurance as it considers advisable and necessary to ensure that Directors and Officers will be indemnified and saved harmless in accordance with this By-Law; the premiums for such insurance coverage shall be paid from the funds of the Club.

ARTICLE XV *Financial Matters*

Section 15.01 Authorized Signing Officers

Contracts, documents or other instruments in writing requiring the signature of the Club shall be signed by any two Officers and all contracts, documents, and instruments in writing so signed shall be binding upon the Club without any further authorization or formality. The Board shall have power from time to time by resolution to appoint an Officer or Officers on behalf of the corporation to sign specific contracts, documents and instruments in writing. Any financial obligation in excess of \$25,000 to be incurred by the Club shall require Board authorization.

Section 15.02 Banking and Borrowing

- a) Bank accounts of the Club shall be kept at such banks and in such places and shall be operated in such manner and by such person or persons as the Board shall from time to time determine by by-law.
- b) The Board may from time to time:
 - i) borrow money on the credit of the Club;
 - ii) issue, sell or pledge debt obligations (including bonds, debentures, debenture stock, notes or other like liabilities whether secured or unsecured) of the Club;
 - iii) charge, mortgage, hypothecate or pledge all or any currently owned or subsequently acquired real or personal, movable or immovable property of the Club, including book debts, rights, powers, franchises and undertakings, to secure any debt obligations or any money borrowed, or other debt or liability of the Corporation; and
 - iv) delegate the powers conferred on the Board under this paragraph to such Officer or Officers of the Club and to such extent and in such manner as the Directors shall determine.

Section 15.03 Investments

The Board may invest in any investments which are authorized by the Club's investment policy as determined by the Board from time to time.

Section 15.04 Trust Funds

- a) No benefit given in trust to or to the use of the Club for endowment purposes shall be hypothecated, transferred or assigned to obtain credit or to receive funds except as allowed by the *Trustee Act* (Ontario);
- b) The Secretary shall keep at the Registered Office of the Club copies of all testamentary documents and trust

instruments by which benefits are given, bequeathed or devised to, or to the use of, the Club;

- c) The Club shall apply any trust funds of the Club only to the designated purpose(s) for which such funds were intended. Under no circumstances shall the Club transfer any funds held in trust by the Club to any other individual or entity, unless such transfer complies with all applicable law, including without limitation, the *Charities Accounting Act* (Ontario) and the *Trustee Act* (Ontario); and
- d) The Treasurer shall at least semi-annually provide an accounting to the Board with respect to all funds held in trust by the Club.

